Ministry of Defence

Defence Resources Secretariat
Ministry of Defence
Main Building (Level 3, Zone A)
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United Kingdom

Reference: **FOI2016/06377**

[redacted]

E-mail: [redacted]

Date: **19 July 2016**

Dear [redacted],

Your correspondence dated 17 June 2016 has been considered to be a request for information in accordance with the Freedom of Information Act 2000. You requested the following information:

> *I would be grateful if you could email me a copy of the Annual Budget Cycle 17 Main Instructions and related technical instructions.*

A search for the information has now been completed within the Ministry of Defence, and I can confirm that information in scope of your request is held.

I attach the information in scope of your request that can be released, namely the Annual Budget Cycle (ABC) 17 Instructions. The Main Technical instructions are combined into a single document with a number of annexes.

Some of the information in scope of your request is exempt from release under Sections 43(2) and 35(1) of the Act, and has therefore been withheld. Since these are qualified exemptions, although the MOD considers they apply to information, the Department is required to decide where the balance of the public interest lies in releasing or withholding the information.

Section 43(2) deals with disclosure which would, or would be likely to, prejudice the commercial interests of any person. In favour of release is the greater level of public transparency which release would allow, and the increased understanding of MOD financial planning which the public would gain. Set against release is the damage which public disclosure of the Corporate Planning Assumptions (CPAs) used to create the MOD's forward spending plans could have in terms of prejudicing future contract negotiations with suppliers. In view of these considerations, we consider that the public interest in maintaining the exemption outweighs the public interest in disclosing the CPAs.

Section 35(1) deals with providing space to allow the formulation or development of government policy. In favour of release, we recognize the greater level of public scrutiny which this would afford, and transparency around the MOD's financial decision making. Set against this, there is a public interest in withholding the information. The MOD's planning process looks out over a ten year period and therefore includes assumptions for which policy has yet to be set or where contractual arrangements have yet to be made. In the case of Service and Civilian pay, increases beyond the current period of Public Sector pay restraint have still to be set and public disclosure of the CPAs could influence future deliberations of the Armed Forces Pay Review Body (AFPRB) and negotiations with Trades Unions. For that reason, we are withholding this information under Section 35(1) of the Act.

In addition, some information is being withheld under Section 40 (Information which is Personal Data whose release is governed by the Data Protection Act (DPA). Where elements of the information in scope constitute the personal data of third parties, this has not been released. Since Section 40 is an absolute exemption, no Public Interest Test is required.

If you are not satisfied with this response or you wish to complain about any aspect of the handling of your request, then you should contact me in the first instance. If informal resolution is not possible and you are still dissatisfied then you may apply for an independent internal review by contacting the Information Rights Compliance team, 2nd Floor, MOD Main Building, Whitehall, SW1A 2HB (e-mail CIO-FOI-IR@mod.uk). Please note that any request for an internal review must be made within 40 working days of the date on which the attempt to reach informal resolution has come to an end.

If you remain dissatisfied following an internal review, you may take your complaint to the Information Commissioner under the provisions of Section 50 of the Freedom of Information Act. Please note that the Information Commissioner will not investigate your case until the MOD internal review process has been completed. Further details of the role and powers of the Information Commissioner can be found on the Commissioner's website, http://www.ico.org.uk.

I hope you find this helpful.

Yours sincerely,

Defence Resources Secretariat

Ministry of Defence

ANNUAL BUDGET CYCLE 17

INSTRUCTIONS

10 May 2016

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INTRODUCTION

1. The purpose of these instructions is to provide direction and guidance on the conduct of Annual Budget Cycle (ABC) 17. They are intended to be read and acted upon by all staff in the MOD involved either directly or indirectly in the ABC process.

2. An important element of the broader context for ABC 17 is the continued application of the Department's fully delegated financial process. These instructions are in no way intended to detract from this but, as a Department of State, the MOD operates within a centrally set financial framework and has certain legal and political considerations which it must adhere to in conducting its planning process. In addition, there are also internal Departmental considerations for the conduct of ABC 17 which need to be taken into account. It is therefore appropriate to provide specific direction and guidance on these issues.

3. These instructions comprise three parts as follows:

Part 1: Broader Context

Part 2: Process Guidance

Part 3: Planning, Budgeting & Forecasting (PB&F) and Data Entry

4. Any questions in respect of these instructions should be passed up through budgetary reporting chains in the first instance. To the extent that issues cannot be resolved internally, Commands/TLBs should consult the relevant desk officer in FMC-Cap-Plans, FMC-Cap-JtPlans or FMC-Cap-Infra. The Defence Resources desk officer is [redacted] (Def Res Planning 1 – Tel: [redacted]).

PART 1 – BROADER CONTEXT

INTRODUCTION

1.1. This part explains the broader context in terms of strategy, policy and technical considerations within which ABC 17 is being conducted.

PRIORITIES

1.2. The main priorities for the financial approach to ABC 17 are:

a. To set Control Totals for individual Commands/TLBs that are consistent with an affordable Defence budget within the outcome of Spending Review (SR) 15 and deliver a forward Defence Programme that is consistent with the outcome of Strategic Defence and Security Review (SDSR) 15;

b. To generate a level of certainty in the forward programme by continuing to refine the financial and capability position reached at the conclusion of ABC 16, recognising that the need to close out that planning cycle before the start of FY 16/17 inevitably left a number of issues to be resolved in ABC 17. Assuring deliverability of agreed efficiencies will be a key feature;

c. to align the processes and timelines for ABC 17 with the parallel work being undertaken on Capability Audit 16, including providing a combined financial and capability submission for consideration at the November 2016 Defence Board;

d. to ensure that any consequences for subsequent years from the work commissioned by Defence Board to manage financial and capability risk in FY 16/17 are properly reflected and managed in ABC 17;

e. to complete ABC 16 in sufficient time to allow a comprehensive FY 17/18 AP 0 process to be conducted ahead of the start of the financial year;

f. to continue to develop the principles of full financial delegation;

General Approach to ABC 17

1.3. The main focus of ABC 17 will be on consolidating and refining the implementation of the outcomes of SDSR/SR 15, in the light of Capability Audit 16, the FY 16/17 in-year savings exercise and other emergent requirements and measures. ABC 16 provided the primary vehicle for implementing those outcomes and, although much progress was made, it was inevitable that a combination of the capability and financial complexity, coupled with the need to close the planning cycle before the start of FY 16/17, resulted in a number of issues being taken forward into the start of ABC 17. Therefore the initial period of ABC 17 activity from early May to submission of Command/TLB Reports in mid-October will combine this work with the usual activity to refresh costed plans which were migrated at the conclusion of ABC 16, including DE&S and ISS Delivery Teams updating EP costings for the outcome of QRPCs 1-16 and 2-16.

1.4. Some of that refinement work by Commands/TLBs will need to be conducted using the ABC Options process and, as agreed towards the conclusion of ABC 16, a first Options window will therefore be open from the start of ABC 17 until mid-July. In parallel, there will also be an inter-TLB transfer implementation at the end of July which will include any changes required as a result of those Options, anything emerging from QRPC 1-16 and any routine inter-TLB business. Those processes will then be used by Commands/TLBs to establish a firm baseline to inform their Reports to the Corporate Centre in October.

1.5 From there, the intention is to go to the Defence Board in November to seek their endorsement of the emerging ABC 17 and Capability Audit 2016 position and any further work which may be required. The remainder of ABC 17 will then comprise implementing the Board's direction and the usual routine business (i.e. Options, external transfers and baseline adjustments) to close out the planning cycle on PB&F by the middle of March 2017.

<u>Financial Delegation</u>

1.6. The fully delegated financial model, first implemented in ABC 14, will continue to form the basis of ABC 17. The essential principle of financial delegation is that Commands/TLBs have the authority to manage their programmes within the resources allocated to them, including the ability to change manpower requirements and, for Commands only, to veer and haul funding between the Equipment Programme and TLB Plan elements of their programmes. However, it is important that, where there are constraints on this financial delegation, these are properly understood and adhered to.

1.7. The key constraints on financial delegation in ABC 17 are as follows:

a. <u>Changes to Service Workforce</u>

The ABC 17 Workforce Instructions (Annex C) set out the process for managing the Service workforce element of Command/TLB programmes in this planning cycle and the flexibilities and constraints within which this will have to be managed. The overriding constraint is delivery of FF2025 and maintaining the underpinning Service workforce requirement baselines.

b. Changes to Civilian Workforce

Similarly, the Workforce Instructions at Annex C set out the flexibilities and constraints for managing Civilian workforce requirements. The key difference here is the requirement to meet the Civilian workforce reduction targets (in terms of numbers and costs) resulting from SDSR/SR 15. Any measures which seek to increase Civilian workforce will have to be viewed against this requirement.

c. Transferring Funding Between TLB Plans and the EP

Whilst some veering and hauling by Commands of Control Total between the TLB Plan and EP elements of their programme is an acceptable part of the fully delegated model, significant switching from EP to TLB Plan is not. This is because to do so would undermine the affordability of the Equipment Programme, which is audited by the National Audit Office and published. In addition, any significant diminution in the overall size of the MOD Equipment Programme is contrary to the current commitment to one per cent real terms annual growth. Any proposals for material transfers of funding from EP to TLB Plan should be highlighted in Command/TLB Reports but should not be assumed in the internal allocation of CTs to TLB Plan, EPP and ESP for the purposes of the financial summary position.

CONTROL FRAMEWORK

1.8. The management of public money requires a robust budgeting system to ensure adherence to the Government's fiscal rules, and to ensure that Value for Money is achieved. Budgets are not used to control cash directly, rather the budgeting system has been developed to indirectly control cash through Control Totals. The HM Treasury Control Framework structure provides the basis of the Control Total regime which underpins the entire ABC process; further guidance on the Control Framework is available in HM Treasury's Consolidated Budgeting Guidance 2016 to 2017, which can be accessed via the following link:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/503365/Consolidated_budgeting_guidance_2016-17.pdf

1.9. It is extremely important that all those involved with the ABC process have a good understanding of the Control Framework to ensure that costs are attributed correctly. Any questions regarding interpretation of the guidance should be addressed to Defence Resources in the first instance.

1.10. The Control Framework is further broken down into Resource Account Codes (RACs). For the purposes of ABC 17, details of the mapping of Level 4 Resource Account Codes (RACs) to these Control Framework headings can be found in the Department's FY 16/17 Chart of Accounts, available on the Defence Intranet.

1.11. HM Treasury delegates the following budgets to Government Departments:

<u>Resource DEL</u>

1.12. This covers current expenditure and is split further into:

- Cash Resource DEL – essentially running costs calculated on an accruals basis (e.g. personnel costs, most types of inventory consumed, non-capitalised infrastructure costs, travel/movement costs and receipts); and

- Non Cash Resource DEL – essentially ring-fenced, non-cash expenditure on depreciation and some types of impairments.

<u>Capital DEL</u>

1.13. This covers capital spending on tangible and intangible fixed assets and is calculated net of any income (including asset sales where the book value scores as income) that is treated as negative expenditure in capital budgets.

1.14. Following the implementation of European System of Accounts (ESA) 2010, all expenditure on Military Equipment (broadly planes, tanks etc.) will be treated as fixed capital formation in the National Accounts. This brings it in line with dual use equipment (defined as structures and equipment used by the military similar to those utilised by civilian producers). However, the recording of expenditure against the two specific categories will still be required as the National Accounts have a specific classification for weapon systems under capital formation which matches what will be scored as SUME in PB&F.

1.15. As a result Capital DEL will continue to be recorded as two categories on PB&F, as follows:

- Single Use Military Equipment (SUME) Capital DEL – investment in assets that are categorised for use solely as SUME (e.g. an ASTUTE class submarine); and

- Fiscal Capital DEL – investment in all other assets including, in some cases, movements in debtors and other current assets (e.g. prepayments). Clarification should be sought from Defence Resources, in these instances, as to what may be included.

<u>Ring-Fenced Non Cash Resource DEL</u>

1.16. The distinction between Cash Resource DEL, which is not ring-fenced by HM Treasury, and Non-Cash Resource DEL, which is currently ring-fenced, was not removed in SR 15. However, that is not to say that it will not be removed at a later date, effectively making the Department responsible for managing within a single Resource DEL budget. This could have potentially serious implications for MOD, with any excess in Non Cash Resource DEL expenditure having to be offset by a corresponding reduction in Cash Resource DEL. So, for example, a forecast overspend against depreciation costs might have to be offset by a forecast reduction in personnel or infrastructure costs. Going forward, even if HM Treasury do not eventually remove the ring-fence it is still a fundamental of good financial management that the Department is able to account properly for its Non-Cash Resource DEL.

1.17. Inherent in this requirement is the need to ensure that Commands/TLBs create and maintain an accurate and up to date Statement of Financial Position (SoFP). This includes updating ABC 17 Opening Balances to reflect the final closing balances from FY 15/16, including any Annual Report and Accounts (ARAc) adjustments, and ensuring that costing models are updated to reflect any changes in planning assumptions throughout the planning cycle. The final ABC 17 SoFP data will be published as part of the Department's ARAc for FY 16/17.

Flexibility to Transfer Funding Between DELs

1.18. The MOD's Departmental Budgets are based on the Control Framework explained above. Since it is an absolute rule that departmental expenditure may not exceed approved budgets, it follows that this imposes an important restriction on the flexibility to transfer funding internally between DELs, with any such requirement at departmental level requiring specific agreement by HM Treasury.

1.19. However, there will inevitably be occasions when Commands/TLBs will wish to transfer Control Total funding between DELs at lower levels within their budgetary hierarchy, such as where assumptions about the method of acquiring goods or services changes between one planning cycle and the next. This is permissible without limit and without reference to Defence Resources, provided that it is internal to the Command/TLB and the net effect of all such transfers can be accommodated within the individual DEL Control Totals issued by Defence Resources. If, however, the net effect of the proposed changes would breach any of the Command/TLB Control Totals, then permission must be sought from Defence Resources.

1.20. As a general rule, requests from Commands/TLBs to transfer Control Total provision from Cash Resource DEL to Capital DEL will usually be allowed provided that the totality of such requests would not breach the Department's Capital DEL budget. Requests to transfer Control Total provision in the opposite direction (i.e. from Capital DEL to Cash Resource DEL) will be considered by Defence Resources on the same basis but are less likely to be successful, given the historic trend of financial pressure against the Department's Cash RDEL budget. Requests to flex Control Total funding from Non Cash Resource DEL to either Cash Resource DEL or Capital DEL will not be allowed.

1.21. Finally, as previously explained, the distinction between SUME and Fiscal elements of Capital DEL remains extant and the Department will continue to report these separately. Advice should therefore be sought from Defence Resources where there is a requirement in ABC 17 to flex Control Total provision between these two elements of Capital DEL at Command/TLB level.

Annually Managed Expenditure (AME)

1.22. Annually Managed Expenditure (AME) includes demand-led or exceptionally volatile types of expenditure that cannot be controlled by the Department and where the programmes are so large that changes could not be expected to be absorbed within DELs. Examples include the creation and revaluation of nuclear and non-nuclear provisions and capitalised nuclear provisions. AME is not a formal DEL budget delegated to MOD but is nevertheless a Treasury Control against which the Department is expected to monitor and forecast. Although not designed to be a firm cap on AME spending, HM Treasury approval is nonetheless required for any changes which would increase AME spending, or if AME is likely to rise above expectations. It is therefore important that costed plans in ABC 17 reflect, as accurately as possible, expected future AME expenditure.

Spend on Inventory Purchase (SOIP)

1.23. As a result of ESA 10, the department was required to make changes to the way in which it accounts for the procurement of Single Use Military Inventories (SUMI)[1], so that it scores as Capital DEL. This change in accounting treatment took effect from FY 15/16 and work is on-going to establish the appropriate operating procedures within the fully delegated financial model.

1.24. SR 15 requires that this change in accounting treatment is extended to the rest of Raw Materials and Consumables (RMC), including fuel, from the start of FY 17/18. It also requires that write-offs of SUMI and RMC are treated as Cash Resource DEL from FY 17/18. These changes are significant, both in terms of their potential impact on the Department's budget allocation position but also with regard to the processes for financial and demand planning. A shadow year is being run in FY 16/17 to provide a better understanding of the changes required and the associated risks and also to develop and implement an appropriate framework covering financial and accounting requirements, demand and capability planning. This will also identify the inventory and financial systems changes that need to be put in place.

1.25. Detailed ABC 17 instructions are currently being developed in consultation with stakeholder Commands/TLBs which will seek to ensure that Defence develops the right financial information to manage the risks of this

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[1] Defined as ammunition, missiles, rockets, bombs and other single use military items delivered by weapons or weapons systems. It excludes some types of missiles with highly destructive capability.

potentially significant business change. Further supplementary guidance will be provided as soon as it becomes available.

<u>INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)</u>

1.26. Like all other organisations, the MoD is required to comply with International Financial Reporting Standards (IFRS) in reporting its financial position. Throughout ABC 17, Commands/TLBs must therefore apply IFRS as adapted and interpreted by HM Treasury in the Government Financial Reporting Manual (FReM). Two areas where this has particular relevance are in relation to the costing of PFIs and foreign currency transactions.

1.27. The costing of PFIs under IFRS will continue to require special consideration, as a result of the 'dual reporting' requirement for certain IFRIC 12 service concession arrangements. For accounting purposes these should be assessed under the IFRS based FReM. However, Commands/TLBs should further consider the treatment of these arrangements under National Accounts standards. These transactions are covered in Part IV of ESA95 and could result in a differing budgetary treatment (off SoFP, as opposed to on SoFP for accounts). As a result of this requirement PFIs should be recorded in PB&F in accordance with the correct budgetary treatment, with the accounting impact being captured offline; the in-year Estimates process reflects the budgetary treatment. Any issues regarding the capture of PFI costs within PB&F should be referred to the Defence Resources Planning Team in the first instance.

1.28. The Standards that relate to Foreign Currency transactions (FRS 23 and 26) essentially mean that all payments will be translated at current spot rate, notwithstanding that the Department forward purchases (hedges) against the risk of unfavourable movements for approximately 80% of the forecast requirement for US Dollars and Euros. For in-year management purposes, any additional financial pressure in Commands/TLBs caused by adverse movements in these exchange rates will be subject to central relief once the associated gains are realised on the hedge. Similarly, any favourable movements in these exchange rates will result in Command/TLB Control Totals being reduced. It follows that it is extremely important that Commands/TLBs accurately forecast their Dollar and Euro requirements throughout ABC 17 to ensure that the Department's forward purchase programme is maintained at the appropriate level to control its exposure to the risk of unfavourable exchange rate movements.

<u>DELIVERY OF CAPABILITY OUTPUT</u>

1.29. Force Elements at Readiness or Sustainability (FE@R/S) are no longer directed by Head Office. In line with both Defence Plan 16 and Command Plans the Output Maps for FLCs identify their directed tasks and the FEs required to conduct those tasks. Commands will be held to account against the tasks in the Output Map through the Holding to Account (H2A) process. The concurrency demands that are articulated in the Defence Planning Assumptions within Defence Strategic Direction (DSD) 16 enable Commands to understand their sustainability requirements.

CAPABILITY AUDIT

1.30. The Capability Audit (CA) instruction (Cap Strat/CapA/CA16) was issued on behalf of ACDS(C&FD) on 10 March 2016 to Command Capability planning leads. CA16 will be embedded in subsequent Command Capability Assessment Reports (CARs) which are to be submitted to ACDS(C&FD) by 9 September and will form the basis of the Defence Capability Assessment Register (DCAR) 16; this will present senior boards with the 'strategic and operational issues and risks' arising in the delivery of Defence Tasks over a twenty year planning horizon.

1.31. CA16 allows Commands/TLBs to explore the application of 'Force Element/Capability Packages' to achieve agreed Outputs through time, against the policy framework of Defence Strategic Direction (DSD) 16 and Defence Plan (DP) 16. Evidence should be generated in a coherent and auditable manner to highlight the nature of the risks to delivery. To ensure coherence across Defence, relevant staffs from other Commands/TLBs and FMC should be consulted to ensure understanding of dependencies. Revised Command Capability Assessment Registers should be submitted to ACDS(C&FD) staffs early in September 2016 for further consideration and discussion prior to incorporation into a single submission to the November 2016 Defence Board covering ABC 17 and CA 16. Further guidance on Capability Audit should be sought from FMC-Cap-Strat-OA2.

STRATEGIC BALANCE OF INVESTMENT (SBoI)

1.32. The Head Office function of SBoI will be conducted by FMC Cap Strat and informed by a number of different tools. The DCAR is the primary tool for considering areas for investment, augmented by other evidence sets including FORCE[2] and Defence Strategic risks. A more complete description of the SBoI process is provided in the FMC Operating Model (FOM), which can be accessed via the Acquisition System Guidance (ASG)[3].

MEETING EMERGING OPERATIONAL DEMAND

1.33. The Urgent Capability Requirement (UCR) process enables Defence to manage emerging operational capability demand. Commands/TLBs should consider operational demands and balance core programmes and resources in the first instance. Aside from routine governance of the UCR process, Head office will only become involved when Commands/TLBs cannot identify sufficient headroom to meet an emerging operational requirement without which there is a risk of operational failure. Depending on the scale of the capability risk involved, endorsement will be sought through the Military Capability Board

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[2] Force Operational Readiness Capability Estimate (FORCE), re-titling of 'Force on a Page'

[3] http://aof.uwh.diif.r.mil.uk/aofcontent/cm/cmpg.htm

(MCB) and by exception to VCDS. This process is included in overview in the FOM and in detail in the UCR Standing Instruction; both documents can be found on the ASG website.

COST OF OPERATIONS

1.34. Funding for operations is generally excluded from the ABC process, with net additional costs to the Department being met from the HM Treasury Special Reserve or the Deployed Military Activity Pool (DMAP). It follows that, where there is a requirement to provide supplementary information in ABC 17 (e.g. Forex volume requirements), any element related to operations should, as a general rule, be similarly excluded. However, following direction from HM Treasury, MOD had agreed to fund certain activity for specific on-going operations which would normally be considered an allowable net cost of military operations and thus funded from the HM Treasury Special Reserve. Further advice concerning funding of operations should be sought from Defence Resources-Operations. Commands/TLBs must not include in costed plans any elements where repayment from Other Government Departments is appropriate, as this will cause a breach of HM Treasury and Parliamentary rules.

INFRASTRUCTURE INVESTMENT

Capital Infrastructure Programme (CIP)

1.35. The Defence Infrastructure Organisation (DIO) funded CIP provides the Department's ten year core infrastructure programme based on Command/TLB prioritised requirements. The CIP therefore differs from the Equipment Programme in that it has not been disaggregated to Commands/TLBs but is 'centrally' held by DIO (with the exception of TLB funded P9/S9 funded projects). In accordance with the Defence Board agreed CIP Programming Principles, Commands/TLBs must manage from within their existing resources the risks associated with those infrastructure projects that are unfunded or delayed. The prioritisation, affordability and deliverability of the CIP is reviewed annually, initially in advance of submitting a DIO Report in October 2016 to allow strategic balance of investment decisions to be made. The final version of CIP 17 will be agreed by the Infrastructure Joint Committee.

Options – Infrastructure Costing

1.36. Commands/TLBs must give careful consideration to whether Options have infrastructure investment requirements and will therefore require costing by DIO – detailed guidance is at Annex D. Furthermore, as agreed by the Defence Board, all future infrastructure investment to deliver Capability or Business Change must be funded by the requesting Command/TLB. Similarly, where the change programme requires changes to the current standard of an existing infrastructure asset or to the planned sustain profile, the financial implications will be managed by the requesting Command/TLB. All infrastructure requirements must be compliant with both the Strategy for

Defence Infrastructure and the Footprint Strategy, and specifically should not increase the cost of estate ownership by transferring costs to other Commands/TLBs.

OFFICIAL DEVELOPMENT ASSISTANCE (ODA)

1.37. The United Kingdom provides Official Development Assistance (ODA) to developing countries and international organisations. ODA is measured in accordance with the international standards agreed by the Organisation for Economic Cooperation and Development (OECD) and is defined as the promotion of the economic welfare and development of developing countries. The current ring-fenced target set for MOD is £5M a year on qualifying activities.

1.38. The table below provides a brief introduction to activities that qualify as ODA. The Defence Resources IYM team has issued In-Year Management Information Notice 4 this year which provides more detail on ODA and the Department's reporting requirements. Although aimed at the in-year management community, this guidance should also be used as the basis for reporting ODA in ABC 17. An extract of IYM Notice 4 is shown in the table below.

General Considerations	
Primary Purpose	The activity should support the primary purpose of ODA, to promote the economic development and welfare of developing countries.
Use of military (including defence civilian) personnel and assets	The use of military personnel and assets can be counted as ODA when the requirement cannot timely and effectively be met with civilian assets. This caveat should not generally be restrictive, as most MOD-delivered activity will involve specific military skills or capability.
Additional costs only	Only the additional (marginal) costs of using defence personnel and assets can be reported as ODA. Salaries of defence personnel cannot therefore be reported as ODA, except that the salaries of reserve personnel can be reported if they are mobilised solely for the purpose of conducting an ODA-eligible activity.
Assistance to partner country military	This is reportable only in the following defined circumstances: • Activity aimed at improving civilian oversight and democratic control of the military system • Where the military of the partner country are necessarily involved in the delivery of humanitarian aid or development services • Provision of certain types of training with a developmental purpose (see below).
Activity	**Guidance / Example Activity**
Security Sector Reform	• Support provided to improve political, institutional and financial transparency, accountability, civilian oversight and respect for human rights.

	• Support to Defence Ministries is reportable if part of a national security system reform strategy. • Activity might include the provision of Special Defence Advisors

Defence Education & Training	• Training of military personnel with a clear developmental purpose for the benefit of civilians is reportable in the following areas:[1]
	    o Human rights and rule of law;
	    o Protection of women in conflict and prevention of sexual and gender-based violence;
	    o International humanitarian law;
	    o Humanitarian response and disaster relief preparedness;
	    o Prevention and treatment of communicable diseases;
	    o Anti-corruption, including prevention of predatory behaviour against civilians;
	    o Transparency, respect of civilian oversight and democratic control.
	• These specific limitations do not apply to defence education or to training provided to non-defence actors, where other courses which support economic development and welfare might be eligible.

Police Training	• ODA eligible items include
	    o Financing, training, and the provision of non-lethal equipment.
	    o Where training is related to the safety, security and storage of equipment that is intended to convey or deliver lethal force. [2]

Disaster Relief and Humanitarian Aid	• ODA eligible items include direct response to crisis and disaster preparedness training.

Child Soldiers	• ODA eligible items include:
	    o Technical co-operation provided to governments and assistance to civil society organisations are eligible
	    o Assistance to improve education/employment to prevent their recruitment
	    o Efforts to demobilise, disarm, release, reintegrate, repatriate and resettle child soldiers.

Refugee Support	• ODA eligible items include:
	    o Costs arising from the first 12 months of their stay
	    o Costs of their voluntary resettlement in a developing country

Medical Training and support.	• Contributes towards improved welfare of ODA eligible developing countries. This excludes military to military

[1] Training should be delivered under civilian oversight, but this can be interpreted as wider institutional oversight, rather than civilian presence on the ground. Training in the use of equipment intended to convey a threat of or deliver lethal force, or training that contributes to fighting capacity are explicitly excluded.

[2] Supply of donor police to control civil disobedience, and training in counter subversion methods, suppression of political dissidence, or intelligence gathering on political activities are specifically excluded.

	support

Peacekeeping	• Participation in ODA-eligible activities within the context of an UN-mandated peace support operation. Such activities might include:
	  o Human rights and election monitoring;
	  o Rehabilitation of national infrastructure;
	• A proportion of the UK contribution to UNDPKO operations.[3]

Removal of remnants of war and de-mining	• ODA eligible items include:
	  o De-mining activity and removal of explosive remnants of war
	  o Associated research and development activities
	  o Stockpile destruction
	  o Risk education
	  o Rehabilitation/reintegration of victims
	• The provision of these activities by military actors is reportable as ODA (i.e. the timely and effective test does not apply).

Preventing violent extremism	• Non-coercive and targeted use of development assistance approaches aimed at providing positive alternatives to those at risk of violent extremism.
	• ODA-eligible activities include:
	  o Education and activities that support the rule of law;
	  o Working with civil society groups specifically to prevent radicalisation, support reintegration and de-radicalisation, and promote community engagement;
	  o Building the capacity of security and justice systems in specific skills required for the prevention of extremist or terrorist threats, such as in the collection and correct use of evidence or fair trial conduct, to ensure more effective and human-rights compliant behaviours;
	  o Research into positive alternatives to address causes of violent extremism in developing countries.

Reintegration and Small Arms & Light Weapon (SALW) Control	• Reintegration of demobilised military personnel; repatriation and demobilisation of armed factions; weapons collection and destruction; efforts to prevent or reduce proliferation of small arms and light weapons. • The provision of these activities by military actors is reportable as ODA (i.e. the timely and effective test does not apply).

1.39. The Department needs to have a good understanding of spending on ODA in both actual and planned terms, especially as there is every likelihood that this will be audited by ICAI, an Advisory Non-Departmental Public Body set

[3] The cost of UK participation in UNDPKO peacekeeping operations is not ODA eligible.

up by the Department for International Development (DFID) for this purpose. However, it is recognised that planning for ODA beyond the first few years is extremely difficult, given the nature of the events that drive the requirement for expenditure. For ABC 17 the reporting requirement for Commands/TLBs is therefore limited to completing the ODA tab in the PB&F FY 16/17 in-year models which cover FY 16/17 and Year 1 of ABC 17. Any specific ODA issues in the ABC 17 period should be included in Command/TLB Reports due to be submitted in October.

HEALTH, SAFETY AND ENVIRONMENTAL CONSIDERATIONS

1.40. The Department owes an important duty of care in terms of Health, Safety and Environmental Protection (HS&EP). These issues are therefore to be considered throughout ABC 17 and handled in accordance with these instructions. It is essential that decisions taken in this budget cycle do not increase the current level of HS&EP risk or contribute to the emergence of new risks without due and careful consideration. Any new HS&EP enhancements that are required to maintain risks at ALARP and tolerable levels should be included in organisations' costed plans and compensating savings identified; HS&EP enhancements should not be treated as enhancements at Command/TLB level, but as composite proposals.

1.41. Any proposed programming changes to current or future resource allocations must include consideration of any potential HS&EP implications. In doing so, Duty Holders have a key role to play in quantifying the HS&EP risks they are holding and, having applied all mitigations available to themselves, articulating and justifying the requirement for further enhancement within their Command/TLB. This justification should also identify the implications of not funding an HS&EP enhancement in terms of capability, risk transfer or other relevant factors. In considering HS&EP implications, it is also important to consider the cumulative effect of seemingly minor issues. To ensure a consistent approach across Commands/TLBs and to keep the Defence Safety Authority (DSA) aware of potential issues, safety related Options should be discussed with the relevant Safety Regulator.

1.42. Command/TLB Reports due in October 2016 must highlight any HS&EP concerns that have emerged in ABC 17 and confirm what actions and mitigations have been taken to address these. If these cannot be achieved within Command/TLB recourse they must articulate any additional steps which would require Defence Board endorsement. In all cases it is essential to maintain a comprehensive audit trail of any HS&EP risk decisions made during ABC 16 or attributable to its outcome.

TRADES UNION CONSULTATION

1.43. Throughout ABC 17 Commands/TLBs and the Corporate Centre must ensure that any proposed savings measures which have an impact on the Civilian workforce are fully and frankly discussed with the Trades Unions. This requirement applies equally to further changes which result from work to refine the ABC 16 closing position and to any new changes in ABC 17. For routine issues, it will be the responsibility of Commands/TLBs to ensure that the necessary consultation/discussion processes are in place with the Trades Unions to address proposed changes to workforce, although a more centralised consultation process may still be appropriate for any further centrally driven measures that may be required to implement the outcome of SDSR/SR 15.

MULTILATERAL INSTITUTION (MI) CONSIDERATIONS

1.44. The UK has regional and global obligations (both formal treaty obligations and the necessity to maintain and develop international relations, reputation and solidarity). This manifests itself most acutely in the need to engage with and provide defence capability to NATO, the EU and the UN. This ranges from including almost all UK forces in NATO's defence planning return for their planning purposes, through to offering UK assets as contributions to specific multinational forces such as the NATO Response Force (NRF), the EU Battle Group (EUBG) and UN peacekeeping activities and being engaged in developing policies and agreements to work with other nations in all these institutions to develop and deliver defence capabilities in the future. This engagement will shape the UK's future defence plans.

NATO

1.45. NATO continues to remain the cornerstone of UK defence. SDSR 15 stated "NATO is the strongest and most effective military alliance in the world. It has formed the bedrock of our national defence, and of stability in the Euro-Atlantic area, for almost 70 years. Our collective Article 5 commitment, that an armed attack against one state shall be considered an attack on all, underpins the security of the UK and our Allies."

1.46. SDSR 15 went on to say "NATO is at the heart of the UK's defence policy. The decisions taken in this National Security Strategy and Strategic Defence and Security Review are informed by NATO's political guidance. The choices we have made to invest in our Special Forces, cyber, Maritime Patrol Aircraft, Intelligence, Surveillance and Reconnaissance aircraft and BMD show our commitment to meeting NATO's highest priority requirements." In practical terms, this means making every effort to deliver upon our negotiated NATO Capability Targets, apportioned to the UK in 2013, and agreed by the Secretary of State. These are to be taken into consideration when undertaking balance of investment decisions in ABC 17.

EU

1.47. As SDSR 15 stated, "Through its 28 member states and EU institutions, the EU has a range of capabilities to build security and respond to threats, which can be complementary to those of NATO. These include sanctions, missions (military and civilian), and security and development support worldwide. Recent examples include sanctions imposed on Russia, assistance in Ukraine, and Operation Sophia, which tackles people smuggling in the

Mediterranean. Operation Sophia, the UK-commanded Operation Atalanta which counters piracy off the Horn of Africa and Operation Althea which provides capacity-building and training in the Balkans are examples of successful Common Security and Defence Policy operations. The UK has played a leading role in them, ensuring that the EU's work supports UK priorities."

1.48. Decisions in ABC 17 that relate to EU activity should be brought to the attention of the NEP EU Policy team. Guidance on the implications of the EU Referendum purdah is held by PUS's office.

UN

1.49. As one of the founding members of the United Nations and one of the five permanent members of the Security Council the UK holds a privileged position within the UN structure. This provides us with a significant level of influence, not only in the UN, but also on the world stage. In September 2015 the Prime Minister committed the UK to doubling our number of UN Peacekeepers through deployments to Somalia and South Sudan. Planning is on-going to enable these deployments, but Commands/TLBs should note that these operations will endure over the period.

1.50. In summary, it is therefore important that decisions made in ABC 17 take into account the requirements and tasks the UK must conduct in NATO, EU and the UN and also recognise the opportunities for multinational co-operation this presents, including in the capability field. Further guidance, including on whether a proposed decision has potential consequences, should be sought from the following:

NATO/EU/UN **NATO Capabilities**	**NEP Deputy Head Multilateral Pol** **NEP Deputy Head Capabilities** **NEP-Cap Dev Pol 1**
NATO Specific Issues	**NEP-NATO AH** **NEP-NATO Mil 1** **NEP-NATO Mil 2** **NEP-NATO Policy 1** **NEP-NATO Policy 2** **NEP-NATO Policy 3**
EU Specific Issues	**NEP-EU Asst Hd** **NEP-EUMil1** **NEP-EU1** **NEP-EU2**
UN Specific Issues	**NEP-UN Policy 1** **NEP-UN Policy 2** **NEP-UN Policy 3**

TIMETABLE

1.51. The ABC 17 timetable (Annex A) sets out the key milestones and the dates for the key technical steps in the process required to allow DG Finance to seek Direction from the November 2016 Defence Board and to provide it with assurance that MOD is on track to deliver a balanced, coherent and affordable forward Defence Programme. Achieving that milestone would then allow ABC 17 to be concluded by mid-march 2017, providing the opportunity to conduct a FY 17/18 AP0 exercise ahead of the start of the new financial year and facilitating the timely roll-forward of the PB&F planning models to ABC 18.

OUTPUT DELIVERY TARGETS

1.52. The outputs which Budget Holders are expected to deliver as a result of decisions taken in ABC 17 will be recorded in the Defence Plan (DP) and its Annexes and Performance will then be measured throughout the year as part of the Defence Performance Framework and the Holding to Account (H2A) process. These outputs will be defined in finer detail in Command Plans and will be reflected where necessary in Command Acquisition Support Plans (CASPs), Information Support Plans (ISPs), the finalised Capital Infrastructure Programme and Joint Business Agreements (JBAs). Commands and Strategic Programmes work together with DE&S and ISS as Customers and Delivery Agent to agree CASPs, with Commands setting costed equipment procurement and service requirements based on DE&S/ISS advice on financial realism and deliverability assumptions. Further detail on CASPs can be found in the Acquisition System Operating Model (ASOM)[4].

1.53. A draft DP17 will be issued before the Summer, with required outputs and priorities; this will then be updated again prior to Christmas and its final issue in March 2017, once final Control Totals have been set. The draft DP17 will inform the drafting of Command Plans and therefore the Options they provide as part of the ABC 17 process

[4] Accessible through the following link: *http://defenceintranet.diif.r.mil.uk/libraries/2/Docs7/20150409.1/20150401%20Master%20ASOM%20Version%203.1.pdf*

PART 2 – ABC 17 PROCESS GUIDANCE

Introduction

2.1. The purpose of this section is to set a general process framework and associated timelines for the conduct of ABC 17. In line with the general approach taken in these instructions, the intention is not to detract from the principles of full financial delegation but rather to ensure that:

- the Defence Board can be provided with timely advice that the Department is on track to deliver a forward Defence Programme which delivers the strategic outcome of SDSR 15 and is affordable within the budgets set by the SR 15 settlement.
- a consistent approach is taken to ABC 17 across the Department;
- the Corporate Centre has access to timely, accurate and sufficiently detailed information at key points in the process to meet its business requirements.

INITIAL PHASE OF ABC 17

Process Summary

2.2. The principal elements of the initial phase of ABC 17 are:

- Roll-forward of ABC 16 final costed plans and Control Totals;
- Issue of ABC 17 Initial Control Totals;
- Further work to refine the financial and capability position reached at the conclusion of ABC 16;
- Re-costing/refresh of the Defence Programme.

Roll Forward of ABC 16 Models in PB&F

2.3. At the start of ABC 17, Defence Business Services (DBS) will migrate final ABC 16 planning data in PB&F to the new ABC 17 planning models, using the formal 'Rolled Forward' version. These new models and reporting hierarchies will have been updated to reflect the current Standing Data Structure (SDS), the 16/17 RA Code structure and in changes in the mappings used in alternative reporting hierarchies.

2.4. This migration process does not require action from users. However, once migration is complete users at Command/TLB level will be asked to confirm to DBS that the initial ABC 17 position is an accurate reflection of the outcome of the previous planning cycle. To facilitate this, DBS will provide each Command/TLB with a reconciliation spreadsheet explaining any changes that have been made (e.g. where a Level 4 RAC or a BLB which had costs shown against it in ABC 16 has been deleted). Once the Command/TLB confirms to DBS that they are content, their models will be rolled to the 'Initial Phase' version, updated to reflect any changes to the centrally mandated Corporate Planning Assumptions which are 'hardwired' into the planning models and then unlocked to allow users to start work on ABC 17.

2.5. The process of migration from one ABC to the next will populate most but not all years with planning data in the new models. For <u>TLB Plans</u>, ABC 16 Years 2 to 10 will be migrated to form ABC 17 Years 1 to 9. The new Year 10 cannot be populated in the same way as there was no ABC 16 Year 11; this will therefore remain unpopulated. A similar approach will be applied to the migration of the <u>Equipment Programme (ESP and EPP)</u>, with the new Year 10 (as Year 11 data in the ABC 16 models is only held at DEL level) and the new Year 30 (as there is no Year 31 in the ABC 16 model) both left unpopulated.

2.6. This is in line with the approach taken in previous ABCs, where Commands/TLBs agreed that this was preferable to the nugatory work involved in applying either a general inflation rate to the new Year 9 or taking the old Year 11 DEL costs and applying these to a lead Level 4 RAC to create the new Year 10 since. In either case, the migrated data would then need to be reversed out to allow users to populate the models with realistic costings.

<u>ABC 17 Initial Control Total</u>

2.7. ABC 17 Initial Control Totals are being issued in parallel with these instructions. They reflect the outcome of ABC 16 adjusted, where appropriate, for the following:

- Setting ABC 17 Year 10 Control Totals;
- Disaggregation of the balance of the Common Goods and Services efficiency targets, initially set in SR 13 and modified in SR 15;
- Other Command/TLB specific issues as separately identified in the covering letters to Initial Control Total sheets.

2.8. ABC 17 Initial Control Totals will <u>not</u> reflect the following:

- The financial consequences of SDS organisational changes which should be managed by Commands/TLBs using the external transfer process in the PB&F Planning Control Model (PCM).
- The disaggregation of the legal claims budget which currently sits in HO&CS TLB. DG Finance has directed this will take place in April 2017 and a basis for disaggregation has been proposed to the Finance Board. The necessary Control Total

adjustments will be made later in ABC 17, once more work has been done within HO&CS and with the other Commands/TLBs.

- The budgeting change made to reflect capitalisation of an element of Research & Development expenditure. This change has been implemented at Departmental level and, where appropriate, will be reflected in the next update of Command/TLB ABC17 Control Totals planned in July. This will not change overall Control Totals, merely the split between Cash Resource DEL and Capital DEL.

2.9. The setting of baseline Control Totals for ABC 17 Year 10 will follow the same approach as in ABC 16. So, for the <u>TLB Plan and ESP</u> elements, this will be calculated by taking the new Year 9 and applying an inflation uplift of 2.3% (i.e. flat real). For the <u>Equipment Procurement Plan</u> (EPP) element, this will be the new Year 9 rolled forward without an inflationary uplift (i.e. flat cash). It had been the intention to set the new Year 10 CTs for the EPP and ESP elements on the basis of ABC 16 Year 11 costings but, unfortunately, the aggregate data quality in PB&F was not sufficient to allow this. The other adjustments listed in paragraph 2.7. above will then be applied to these baseline CTs, as appropriate.

2.10. In line with the approach in previous ABCs, Defence Resources will issue updated Command/TLB Control Totals at various stages of ABC 17. These CTs are definitive and, for reasons of coherence, under no circumstances should Commands/TLBs assume changes without specific approval from Defence Resources.

2.11. The process for issuing and changing Control Totals on PB&F in ABC 17 remains unchanged from that used in recent ABCs and is the PB&F Planning Control Model (PCM). This will be used by Defence Resources to set CTs at Command/TLB level by year and DEL and to adjust those CTs throughout ABC 17, as required. In parallel, it is also used by individual Commands/TLBs to allocate their CTs to their TLB Plan, EPP and ESP (as appropriate) and then to their lower level budgetary organisations in each of those plans.

2.12. In addition, the PCM provides a snapshot functionality which allows users to create a point in the ABC process against which Management Reports and Extended Analysis can be run. It also provides the functionality to allow inter and intra TLB transfers to be actioned and for the effects of implementing Options to be automatically reflected in the CTs of lower level budgetary organisations, if required. These elements of the PCM are dealt with in the appropriate sections of these instructions.

<u>The Outcome of ABC 16</u>

2.13. ABC 16 was concluded on the basis of a set of Command/TLB costed plans which matched the final Control Totals issued by Defence Resources. However, the volume and complexity of the changes made to plans in ABC 16 to implement the SDSR/SR savings and investment packages, coupled with the need to close out that planning cycle before the end of the financial year, has inevitably left a number of issues which will need to be resolved in the initial stages of ABC 17.

2.14. For efficiencies measures, the majority of SDSR/SR efficiency Options were costed and implemented as Options and should therefore already be embedded in costed programmes at the end of ABC 16. The only exception is where the Options have been costed and implement against a Command/TLB adjustment node; in this case Commands/TLBs will need to consider whether measures should be disaggregated down to the appropriate levels of their budgetary hierarchy to ensure that the efficiency is delivered. Similarly, a small number of ABC 16 efficiency measures were implemented wholly or in part as manual adjustments to Control Totals rather than entirely as Options and these may also need to be embedded in costed programmes against the appropriate elements of the budgetary hierarchy.

2.15. A number of ABC 16 efficiency Options were designated as flexible i.e. a proportion of the required efficiencies can be achieved from an alternative source. When deciding how and where to embed these in their costed programmes, Commands/TLBs should bear in mind that the efficiencies should first of all be sought in the identified area and only if that cannot be achieved, or the cost of delivery outweighs the benefits, should the efficiencies be delivered from elsewhere in their programmes.

2.16. There were also a number ABC 16 efficiency measures included in the SR 15 settlement where it was decided that further work was required within the Department before setting efficiency targets for Commands/TLBs. These include further civilian pay savings (related to headcount), civilian cost base reductions (including grade de-enrichment), reductions in Head Office headcount and commercialisation. Further guidance will be provided once the work matures and the best method of delivering these efficiencies becomes clear.

2.17. The Efficiency Delivery Board (EDB) is the primary vehicle for monitoring delivery of efficiencies. However, Commands/TLBs should provide an update on what progress they have made and any issues in their ABC 17 Reports in October.

2.18. Similar considerations apply to the refinement and embedding of SDSR/SR 15 investment choices (i.e. enhancements) in the initial phase of ABC 17. The implementation process in ABC 16 was based on a combination of Options costs and manual adjustments; where the costs of implemented enhancement Options exceeded the level of funding approved by the Defence Board the associated Control Totals issued to Commands/TLBs were subject to a single central reduction. Further work is therefore required at the start of ABC 17 to ensure that all SDSR/SR 15 approved enhancements are embedded in costed plans at the appropriate budgetary level, including those for which Options were either not issued in ABC 16 or, if issued, were not fully costed. Additionally, Commands will need to work with DE&S/ISS and other stakeholders to manage their programmes within the approved cost envelope by trading time and performance within their overall portfolios. Given the nature of the SDSR/SR 15 enhancements the expectation is that most, if not all, of this refinement work will require Commands to raise ABC 17 Options; an initial Option window running from 3 May to 15 July is being provided to facilitate this and to ensure that the revised costed plans can be used to inform Command/TLB Reports in October. These Reports should identify any remaining issues with ABC 16 enhancements and propose mitigating action, as appropriate.

2.19. As a mechanism to help balance departmental financial and capability risk, it was decided to regulate a number of SDSR investment choices at the conclusion of ABC 16. These regulated measures were broken down into two types: those where the funding was allocated in Command/TLB ABC 16 Final Control Totals but Head Office approval is required before funds can be committed and those where the funding is held centrally by Defence Resources and Commands/TLBs are required to seek delegation of the funding before initiating the project. It follows that Command/TLB costed plans at the close of ABC 16 included the former but not the latter and this should continue to be the case in ABC 17 unless there is a change in the status of a particular measure. Further details of the measures included in under each type can be found in the ABC 16 Implementation Note[5].

2.20. For those measures where Commands/TLBs already hold the funding in their Control Totals but Head Office approval is required to commit financially, the following process will apply:

- Command/TLB Directors of Resources are to seek approval from D Fin Planning and ACDS(C&FD) to commit project funds with an explanation of the need to access funds at that point in time;

- The project should have an up-to-date costing (i.e. within the last two months) which can be either from an Initial Look Request (ILR) or from a formal Option costing;

- The Command/TLB must be able to demonstrate that the project is affordable within existing Control Totals together with any performance or time trade-offs required to achieve this; internal capability trade-offs or suggestions for cross-TLB trade-offs are alternative possibilities;

- Commands/TLBs will also need to confirm that they are on track to deliver their efficiency targets.

2.21. For those measures where Defence Resources are holding the funding centrally, the following process will apply:

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[5] FMC/Cap Strat/ABC 16 dated 23 Mar 2016

- Command/TLB Directors of Resources are to seek approval from D Fin Planning and ACDS(C&FD) for approval and delegation of the project funds with an explanation of the need to access funds at that point in time;

- The project should have an up-to-date costing which will provide a baseline Performance, Cost Time (PCT) envelope for consideration in the decision making process;

- The affordability of the project will be considered against its Defence Board approved funding level. Commands/TLBs can offer compensatory savings if there is a significant shortfall between the approved funding and the up-to-date costs;

- Commands/TLBs will also need to confirm that they are on track to deliver their efficiency targets.

2.22. Requests to Head Office for approval of either type of regulator measure will be subject to a Balance of Investment analysis in the context of the current departmental position, including the current financial position and level of risk, capability prioritisation of other regulators still to be approved, current capability risk (e.g. from the DCAR or FORCE) and deliverability within the Command/TLB portfolio.

2.23. [redacted]. Regulator issues could be raised to MCB where there are benefits to cross-TLB discussion (e.g. if a Command/TLB reports that it does not have the capacity to deliver one of its regulator investments).

2.24. Where approval to release funding held centrally by Defence Resources is given, **it is essential that the project(s) concerned are not included in Command/TLB costed plans until such time as Defence Resource has formally updated Control Totals**, as to do so would distort the Command/TLB (and therefore the overall departmental) financial position.

2.25. It is important that everyone across the Department has a common understanding of the outcome of ABC 16 and of the work in ABC 17 to refine that outcome. For the Equipment Programme, it is important that Third Order Assumptions (3OAs), agreed with stakeholders and recorded in ADMIS, are kept up to date and underpin ABC 17 costed plans. In parallel, it is important that CASPs. ISPs, the CIP are properly updated at the required points in the process

Re-costing Activity

2.26. Re-costing activity in ABC 17 will take two forms and will, in all instances, have to be managed within the Command/TLB Control totals issued by Defence Resources.

2.27. Firstly, the costed plans rolled forward from ABC 16 will need to be re-costed on the basis of the updated Corporate Planning Assumptions at Annex B. It is important that the restriction on the use of discretionary CPAs is strictly applied and Commands/TLBs and DE&S/ISS Delivery Teams (for the EP) should use:

a. the published CPAs **for pay, Local Overseas Allowances (LOA), fuel, foreign exchange and Modified Historic Cost Accounting (MHCA) indices**;

b. the best available assumptions regarding cost growth and inflation factors for other elements of their programmes, including project-specific information; only on those rare occasions where this is not available should the discretionary CPAs be used. Also, costings must not be based on the CPA for general inflation with the difference, calculated using a realistic project/programme-specific factor, held as "risk outside costing".

2.28. The second form of re-costing is a more general refresh of existing costed plans. This will include addressing issues such as:

- implementing the baseline changes made in the ABC 17 Initial CTs issued by Defence Resources, explained in greater detail in the Covering Note to the Control Totals;

- re-costing the Equipment Programme for the outcome of QRPCs 1-17 (by 30 June) and QRPC 2-17 (by 23 September) and reflecting this in the CASP where necessary;

- any outstanding ABC 16 issues, including work to refine the outcome of ABC 16 (see paragraphs 2.13. to 2.24. above) and any other routine internal Command/TLB issues (e.g. internally created balancing adjustments to deliver their costed plans to Control Totals);

- a more general refresh of existing TLB Plans. Under full delegation it will be a matter of judgement for Commands/TLBs to determine which other elements of their costed plans require refreshing.

2.29. Except where adjustments have been made in the ABC 17 Initial Control Totals issued by Defence Resources) all other financial consequences of this general refresh activity - including changes to EP costs following QRPCs - will have to be managed by Commands/TLBs from within their existing Control Totals.

Consequences of Managing Financial and Capability Risk in FY 16/17

2.30. [redacted]

2.31. [redacted]

2.32. [redacted]

2.33. [redacted]

2.34. For in-year management, HM Treasury requires departments to account separately for the net running costs of NDPBs as part of the Estimates process. Consequently, Command/TLB in-year Cash Resource DEL budgets will be reduced by the amount of Grants-in-Aid for NDPBs and expenditure reported separately.

Programming and Costing Responsibilities

2.35. Under the fully delegated financial model, programming and costing responsibilities for ABC 17 will be as follows:

Commands (i.e. Navy, Army, Air and Joint Forces)

Commands are responsible for costing and programming their TLB Plans at RAC Level 4 across the full ten years of ABC 17. They are also responsible for programming for the ten year period those elements of the Equipment Programme (EPP and ESP) which have been delegated to them. In addition, they are responsible for programming their elements of the second and third decade Equipment Programme.

Other TLBs (i.e. HO&CS, DE&S BTE, DIO and War Pensions Benefits)

Other TLBs are responsible for costing and programming their TLB Plans at RAC Level 4 across the full ten years of ABC 17.

Strategic Programmes

Strategic Programmes is responsible for programming those strategic projects in the Equipment Programme which have not been delegated to Commands across the full ten years of ABC 17. Additionally, they are responsible for programming their elements of the second and third decade Equipment Programme. For ABC 17 this will continue to include the nuclear element of the programme, pending the formal creation of the new DG Nuclear TLB in ABC 18.

DE&S/ISS Delivery Teams

DE&S and ISS Delivery Teams are responsible for entering and maintaining the EPP and ESP costing in PB&F at RAC Level 4 for Year 1 to 10 and DEL level for the second and third decades.

2.36. The programming and costing responsibilities outlined above make no distinction between ESP(In Service - IS) and ESP(New Equipment - NE). This distinction is, to a large extent, a hangover from the previous planning process under which Front Line Commands were responsible for programming ESP(IS) in Years 1-4 only. With the transition to fully delegation budgets, this distinction has become significantly less relevant. However, following further consultation with Commands/TLBs during ABC 16 it became apparent that the distinction continues to be used internally by them and that removing it would be unhelpful. The distinction will therefore continue to operate in ABC 17, although there will again be no requirement from the Corporate Centre for Commands/TLBs to maintain and report their ESP(IS)/(NE) data separately. For completeness, the definition of ESP(IS) remains unchanged and for ABC 17 is: those equipments which are scheduled to be in service or, where separately agreed, have reached Initial Operating Capability (IOC), by 31 March 2017.

REBALANCING COSTED PLANS TO CONTROL TOTALS

2.37. The activities set out above will provide Commands/TLBs with a common and fully developed understanding of the outcome of ABC 16 and a set of re-costed and refreshed plans for ABC 17. In line with the overall approach to ABC 17 activity, it will be for Commands/TLBs to determine how best to manage any emerging cost pressures. This will involve consideration of existing and new efficiencies, risk and internal re-programming measures. Although the first Options window, which runs from early May until mid-July, is primarily intended to facilitate refining the outcome of ABC 16, it can also be used to run and implement Options to address routine Command/TLB business if those organisations so wish.

Efficiencies

2.38. The process for refining and dealing with SR 15 efficiencies is explained at paragraphs 2.14. to 2.17. above. In addition, Commands/TLBs will wish, as part of refreshing their costed plans, to review efficiencies taken in previous planning cycles to assess whether these are still on target to be delivered; additionally they will also wish to consider the scope for introducing any new efficiencies. In considering new efficiencies, there may be instances where the delivery of downstream cost reductions may require up front expenditure. In this situation Commands/TLBs should initially seek to accommodate this additional funding requirement within their existing Control Totals; where it is judged that this cannot be achieved, the proposal should be raised in their Command/TLB Reports in October for further consideration by the Corporate Centre.

Financial Risk

2.39. All Commands/TLBs are expected to carry within their programmes a certain level of financial risk, and provided this is understood and can be mitigated and managed, this is a sensible way of planning. It is for the Command/TLB to determine the appropriate level of financial risk to hold within their costed programmes. However, in order to be able to provide reassurance to the Defence Board that ABC 17 is on track to deliver a balanced, coherent and affordable ten year Defence Programme, Defence Resources will need to provide an assessment of the overall level of financial risk at departmental level. Command/TLB Directors of Resources will therefore be asked to comment on their financial risk position in their Command/TLB Reports in October. This should be done with reference to the Department's risk management policy (JSP 892 Risk Management[6]).

2.40. Judgements about the levels and types of risk which are acceptable will vary with the level and size of the organisation; a significant and unacceptable financial risk in a small BLB may be insignificant and therefore acceptable at Command/TLB level. It is important, therefore, that Command/TLB judgements about risk are taken in the context of their organisation as a whole rather than simply being an aggregation of lower level risks.

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[6] http://defenceintranet.diif.r.mil.uk/libraries/library1/DINSJSPS/20110714.1/JSP892.pdf

2.41. For ABC 17, the approach to considering and reporting financial risk to the Centre will continue to focus on Risk Inside Costing (RIC) and Risk Outside Costing (ROC) and over-programming. Commands/TLBs and DE&S/ISS staff (for the EP) may, of course, continue to use other risk definitions (e.g. probabilistic and deterministic) for their own internal processes and non-financial risks but there is no requirement to report to the Corporate Centre along those lines. Commands/TLBs may also continue to use the Risk Tab in PB&F as the basis for internal reporting; however, this tab does not fully support analysis based on RIC/ROC, which will therefore have to be provided separately as part of Command/TLB Reports.

2.42. <u>RIC</u> is the level of funded risk mitigation within costed plans. In practice, it is usually a positive provision within the costed plan to mitigate financial risks that are assessed as likely to arise; this provision then becomes redundant if the risk it is intended to cover does not materialise, hence the need to assess likelihood correctly. It is important that RIC is then carefully managed, particularly in-year, to ensure that if it does need to be retired it can be reallocated such that it does not create material underspends.

2.43. <u>ROC</u> is the element of risk assessed as not requiring funding as a result of the chosen costing methodology; how this element is calculated may vary depending on the methodology chosen. Presentation of risks handled as ROC then provides a measure of the Command/TLB's potential risk exposure out with the costed plan. Exceptionally, very large value risks which would otherwise be classified as RIC but which would cause unacceptable distortion in costed programmes (e.g. large capital receipts) may be held as ROC.

2.44. As outlined above, the primary determinant in categorising a financial risk as RIC or ROC, assuming the financial implications are known in sufficient detail, is the probability of the risk materialising (i.e. the likelihood assessment). As a general rule, low likelihood financial risks should be treated as ROC, and high likelihood as RIC. For example, a particular activity that is assessed as being liable for a new tax treatment (and therefore a new cost) in a situation where the Command/TLB consider that there is only very limited room for negotiation around this new treatment, should likely be treated as RIC. In this example successful negotiation could treat the risk but, given the assessment of negotiating freedom, it would be prudent to make a funding provision and then retire this if the negotiation is successful. Inversely, if the Command/TLB consider its negotiating position to be very strong, the prudent outcome would likely be to treat this as ROC, since taking programming action to fund the provision is likely to be wasted activity once negotiations successfully conclude. However, it is ultimately for Commands/TLBs to judge the correct treatment of a financial risk, considering all the relevant factors including the impact assessment of the risk.

2.45. There are a number of elements that should not be considered or reported as RIC or ROC, including:

a. Risks where the financial effects are too uncertain to realistically calculate – whilst these are potentially still classifiable as financial risks, in the absence of financial data they cannot be treated as RIC or ROC. It is recognised that these forms of risk could have significant financial consequences if they did materialise, so they should be kept under review. Screenings should also remove any unwarranted contingency built into programme costings;

b. Efficiency: The basic assumption is that Commands/TLBs will deliver efficiency which has been programmed in their CTs and any challenges Commands/TLBs face in achieving efficiency plans should therefore form part of a discussion on efficiency, rather than being reported as risk;

c. Aspirational requirements which are not currently part of the funded plan;

d. The measures identified by Commands/TLBs to close the gap between the costed plan and the CT (but not yet implemented against costed plans), since to express such an item as a risk would be to count the potential pressure on the programme twice, as both a variance and a risk.

Financial Risk and Fade

2.46. The levels of fade assumed by Commands within their element of the Equipment Programme (i.e. EPP and ESP) must be agreed with the appropriate delivery organisation (DE&S or ISS). Once the level of fade has been agreed the Command/TLB may introduce or assume a level of over-programming that is appropriate to mitigate the risk of underspending in a financial year. Levels of fade should not be derived to match a desired level of over-programming. Such over-programming would represent a risk to programme delivery as, if funding cannot be found, then in-year action would be needed to address the requirement. As non-emergence of RIC in-year would lead to underspending and emergence of ROC in-year could result in overspending, the balance of RIC and ROC is important when considering the appropriate levels of fade and over-programming. However, in all circumstances, Commands/TLBs will be responsible for the judgements they agree with DE&S/ISS, including identifying levers to deliver savings if fade fails to materialise. Similarly, Commands/TLBs can also introduce over-programming into the TLB Plan element of their programmes at a level they consider appropriate, taking into account the considerations set out above.

2.47. An important issue identified in the ABC 15 Learning from Experience (LFE) exercise is the importance of ensuring that a single, agreed set of risk definitions is used across the Department to ensure clarity and consistency. It was intended to address this in ABC 16 but the complexity and workload associated with delivering the outcome of SDSR/SR 15 meant that it has not been possible to bring this to a conclusion in time to inform ABC 17. That work will now be undertaken later this year in conjunction with all key stakeholders and further guidance on risk will be provided when this completes.

Internal Reprogramming

2.48. To the extent that Commands/TLBs have a residual funding shortfall between their recosted plans and Control Totals after considering risk and efficiency, they will need to consider what further programming action they need to take in order to return to a position of affordability. There are a number of tools available to Commands/TLBs to inform their consideration of potential internal reprogramming measure, including the DE&S/ISS Change Requirement process (see paragraphs 2.70. below) and they should always look to internal reprogramming in the first instance, rather than raising Options. Further guidance on the ABC 17 Options process is at paragraphs 2.60. to 2.88. below.

COMMAND/TLB REPORTS

Format

2.49. Notwithstanding the fully delegated budgets, there remains a requirement for the Corporate Centre to provide a departmental view of the ABC 17 position in order to allow DG Finance to seek direction from the Defence Board as appropriate and to provide it with assurance that MOD is on track to deliver a balanced, coherent and affordable forward Defence Programme.

2.50. To facilitate this, all Command/TLB Directors of Resources are to submit a Command/TLB Report to DG Finance by 14 October. This Report will set out the overall position in terms of delivering the agreed forward programme and the key issues and risks identified. In line with the delegated model, and recognising that each Command/TLB may have significantly different issues, it will be for Directors of Resources to determine the exact content and format of their Reports. But, as a minimum they must include the following:

a. Summary Financial Position

Defence Resources will provide a reporting template for Commands/TLBs to complete which will, as in ABC 16, provide a summary of the ten year financial position by DEL (Cash Resource DEL, Non Cash Resource DEL and Capital DEL). The template will cover the TLB Plan, ESP and EPP elements of programmes.

Commands should ensure, and confirm in their Command Reports, that the EPP and ESP elements of the financial summary are consistent with their candidate Command Acquisition Support Plans (CASPs) and that the financial data represents the latest position with DE&S as to the Programme of Work DE&S expects to deliver on their behalf. Where material differences exist, these should be highlighted within the Command Report with supporting comment. A complete breakdown of CASP Annex financial data is not required.

The costed plan should reflect the latest costings after taking account internal risk assumptions, efficiencies and internal reprogramming measures. It should also include adjustments resulting from Inter-TLB Transfer Implementation 1 and 2 and Option Window 1 Implementation. For the Equipment Programme, the latest costed position will be QRPC 2-17.

Control Totals should be those issued by Defence Resources on 30 September, incorporating changes from the Options and Transfer windows listed above.

There is no requirement for Commands/TLBs to provide a detailed reconciliation between the outcome of ABC 16 and the current costed position but it would helpful if material changes could be highlighted in the narrative of the Reports. Reports will need to explain the reasons for any residual excesses between costed plans and Control Totals and how the Command/TLB proposes to deal with these.

b. Details of any programming action which Commands/TLBs have identified would be necessary to balance recosted plans to Controls and which would require Centre approval;

c. Capability Issues

Paras 1.30. and 1.31. set out the processes and deliverables for Capability Audit 16, Command CARs and DCAR 16. These will provide the basis for presenting senior boards with strategic and operational issues arising in the delivery of Defence Tasks. However, Commands/TLBs may wish to refer to that emerging work in the ABC Reports, particularly where potentially significant financial issues have been identified.

d. Efficiencies

Although the Efficiency Delivery Board is the primary vehicle for monitoring delivery of efficiencies, Commands/TLBs should provide an update in their Reports on what progress they have made in delivering their SDSR/SR 15 efficiencies and what issues, if any, they wish to raise to the Corporate Centre. Reports should also provide a brief update of other efficiencies, specifically setting out any new efficiencies taken into costed programmes in ABC 17 (and highlighting any that require up front funding which Commands/TLBs are unable to find from within their existing Control Totals) and providing details of any efficiencies from previous planning cycles which are not likely to be achieved.

e. Risk

Defence Resources will issue a risk template for Commands/TLBs to complete which will, as in ABC 16, show the overall levels of risk (RIC, ROC and over-programming risk) by Plan (TLB Plan, EPP and ESP, as appropriate). Command/TLBs Reports should set out the rationale for the approach taken to risk, the key risks and how these will be managed.

f. Workforce

Annex C provides further detail of the workforce related information which Commands/TLBs are required to provide as part of their Reports in October. A new Workforce reporting template will be provide nearer the time to ensure consistency of reporting by all Commands/TLBs to the Centre.

g. Health, Safety and Environmental Considerations

In line with the guidance on Health, Safety and Environmental considerations (paragraphs 1.40. to 1.42. above), Command/TLB Reports must highlight any concerns that have arisen in ABC 17 and confirm what actions and mitigations have been taken to address these, together with any additional action that may be required which would need Defence Board endorsement.

h. Requests to the Corporate Centre to approve material transfers of Control Total provision from the EP to the TLB Plan elements of Command programmes.

2.51. Further guidance on the format and content of Command/TLB Reports, including the templates for the Summary Financial Position and Risk, will be provided in due course. It is important that these templates are not altered in any way and are fully completed as required; this will ensure that the information is submitted the Centre can be easily aggregated at the departmental level.

PB&F Submissions to Support Command/TLB Reports

2.52. Commands/TLBs must submit their ABC 17 Planning models in parallel with their Command/TLB Reports on 14 October. It is essential that the information in PB&F exactly matches that in the Reports; this will allow the Corporate Centre to use PB&F to undertake any further analysis which might be required. The models will be rolled forward immediately after submission and reopened to users.

TRANSFERS

2.53. The ABC process incorporates two types of transfers of funding and where appropriate, workforce. The first, called intra-TLB (or internal transfers), involves transfers which are internal to a Command/TLB and therefore have no impact on its overall Control Totals issued by Defence Resources. This includes transfers between organisations in the Command/TLB's budgetary structure (e.g. from one BLB to another) and, for Commands only, transfers between the TLB Plan, EPP and ESP elements of their programmes. Subject to the constraints on financial delegation set out in paragraph 1.7. of these instructions, Commands/TLBs may make internal transfers at any point during ABC 17, using the PB&F Planning Control Model (PCM) and these will be actioned overnight. Proposals to make material transfers of funding between the EP and TLB Plan element of Command costed plans should not be actioned by internal transfers until the matter has been raised in Command/TLB Reports and Corporate Centre approval has been given.

2.54. The second type of transfer, called inter-TLB (or external transfers), are transfers between Commands/TLBs which therefore affect their overall Control Totals and require implementation by Defence Resources. Changes to Control Totals resulting from both types of transfers, together with other baseline adjustments made by Defence Resources and the effects of Option implementation (although the latter is optional) will, for ABC 17, be entered and implemented through the PB&F PCM. Defence Resources will not, in general, adjust Control Totals for transfers other than at the each implementation point, as to do otherwise would introduce unnecessary uncertainty and complexity into the planning process.

2.55. The underlying process for inter-TLB transfers is unaltered from that in ABC 16. Commands/TLBs will need to agree such transfers between themselves, with the exporting Command/TLB entering the transfer on PB&F and the importing Command/TLB approving it. Use of the PCM to enter and approve inter-TLB transfers requires the exporting organisation to enter a unique reference number in PB&F. As previously agreed through the PB&F Joint Application Design (JAD) process, the convention is:

XXX/YY/ZZZZ

where XXX is the Command/TLB budget code (e.g. B00 for JFC), YY is the current ABC cycle (so 17 for ABC 17) and ZZZZ is a sequential reference number. Use of this convention is mandated for all inter-TLB transfers, although Commands/TLBs have discretion over how the use the sequential reference number. They could, for example, just use the numbers sequentially from 0001 or they might instead decide to allocate a range in the sequence (e.g. 2001-2999) to a particular type of transaction. One important point to note is that each reference must be unique (i.e. the same package reference should never be used for two different transactions).

2.56. As in previous years, Commands/TLBs can enter and approve inter-TLB transfers at any time from the models becoming available at the start of the ABC 17 but they will not be implemented immediately; instead, Defence Resources will take the necessary action to implement them at pre-designated points as shown in the ABC 17 timetable (Annex A). Whilst there is no systems limit to the number of transfer implementation points that can be created by Defence Resources in any planning cycle, a balance needs to be struck between the need to update Control Totals to maintain an up to date financial position and the need for stability when undertaking activities such as balancing costed plans back to Control Totals.

2.57. For all inter-TLB transfers, it will be for the two organisations involved to agree the detail between themselves; the Corporate Centre will only intervene to make a binding adjudication in those exceptional cases where such agreement cannot be reached. One area which has in the past proved problematical is where the exporting Command/TLB seeks to apply a general percentage reduction to the value of transfers to cover a centrally held savings/efficiency adjustment, the detail of which has not yet been programmed. Although there has been a significant improvement in how this has been managed in recent ABCs, the methodology for implementing SDSR/SR 15 efficiency measures means that this may again become an issue in ABC 17.

2.58. In the absence of initial agreement between the two organisations on the amounts to be transferred, the following will apply:

- Where, at the time of the transfer decision, the exporting organisation has in place a plan to deliver the savings/efficiency requirement or has cascaded an element of the savings requirement to the business element which is transferring, the amount to be transferred should reflect this (i.e. the amount to be transferred should be abated to reflect the delivery plan);

- Where, at the time of the transfer decision, the exporting organisation has not cascaded the savings/efficiency challenge to the business element or developed a delivery plan, the amount to be transferred should <u>not</u> be abated.

2.59. At each inter-TLB transfer implementation point, all agreed transfers will be implemented as adjustments to the CTs of the importing and exporting organisations. It should be noted that costed plans will not automatically be adjusted for the effects of these transfers. <u>In all cases where a transfer of CT has been agreed between Commands/TLBs, the changes must not be reflected in costed plans until Defence Resources has formally amended CTs</u>. Experience from previous planning cycles has shown that pre-empting transfers can lead to costs being double counted or omitted altogether and makes the central assessment of an organisation's position against CT and the overall Departmental position considerably more difficult to identify.

OPTIONS

2.60. ABC Options are a well establish process which has been in existence in various forms for many planning cycles and which is used to cost and test potential changes to programmes which require Corporate Centre or Defence Board approval, or which have implications for other Commands/TLBs.

2.61. Some measures which are identified during the ABC process (both savings and enhancements) can be taken into Command/TLB costed plans without the need for further consultation; others will need to be raised as Options. The latter include those that:

a) Affect Defence Final Outputs[7];

b) Are politically sensitive or are likely to generate Ministerial interest;

c) Are Novel or Contentious;

d) Have a potential impact on other Commands/TLBs[8];

Commands/TLBs should seek direction from FMC-Cap-Plans, FMC-Cap-JtPlans or FMC-Cap-Infra if there is any uncertainty as to whether a savings or enhancement measure can be taken into costed plans or will require an Option to be raised.

2.62. The light touch approach to the initial period of work in ABC 16 and the subsequent need to test and implement measures in the SDSR/SR necessitated an Options process based around three inter-linked strands:

- Shadow Genesis Options
- Centrally led SDSR/SR Options
- Command/TLB led Option

2.63. This approach provided a pragmatic way of managing the requirements of an ABC run in parallel with the SDSR/SR and was compliant with Lord Levene's recommendations on how a fully delegated financial model should run in an SDSR/SR year. However, SDSR/SR 15 has now concluded and the ABC 17 Options process will therefore be run along the same lines as earlier ABCs. Specifically, there will be no Shadow Genesis Options process in ABC 17 and Options will, as a general rule, be raised and managed by Commands/TLBs, including those required to refine the outcome of ABC 16 (see paragraphs 2.18.).

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[7] Affect the Force Structure in terms of Force Elements at Readiness (FE@R) or Sustainability (FE@S).
[8] Where such impacts have not been previously agreed between the Commands/TLBs.

2.64. Should there be a need for a centrally led savings exercise later in ABC 17, the Centre may mandate that this is managed using the Options process. If this is the case, it is important that Commands/TLBs act accordingly and that and that final implementation of measures will always be through formal Options; Commands/TLBs cannot assume that they can decide that certain Options should not be implemented (either wholly or in part) and that any financial shortfall can be met through other internal means, unless this flexibility has been specifically agreed by the Corporate Centre.

2.65. The first ABC 17 Options window will run from 3 May until 15 July and is primarily intended to allow Commands/TLBs to address outstanding issues from implementation of the SDSR/SR 15 enhancements package in ABC 16. However it can also be used for routine Command/TLB business. A second Options window is currently scheduled to run from mid-July until mid-February although there is scope to break this down into two (or more) windows if there is an emerging business requirement to do so.

Command/TLB Led Options

2.66. Commands/TLBs will be responsible for generating and managing Options, for liaising with other affected Commands/TLBs during the costing/assessment phase (and, if necessary, before raising an Option which is expected to be particularly contentious) and, ultimately, for deciding which Options they propose to implement. Implementation decisions may, in certain limited circumstances, be overridden by Defence Resources (e.g. where an Option requires Defence Board/Ministerial approval or where appropriate funding mechanisms have not been agreed with other affected Commands/TLBs).

2.67. Defence Resources will act only as a facilitator for Command/TLB led Options, setting the timetable and processes, formally creating Options on PB&F and issuing these, actioning implementation decisions and providing advice and guidance. The key to an effective Options process which incorporates all of the dependencies of proposed measures will be good communication between all of the relevant stakeholders throughout the entire Options process, particularly for Options that the raising Command/TLB knows are likely to be contentious.

Option Generation and Distribution

2.68. Commands/TLBs are responsible for raising Options where they consider that they are required, taking into account the guidance at paragraph 2.61. above on when Options must be raised. Although there is no formal limit on the number of Options that a Command/TLB can raise (other than an overall limit of 500 Options that can be accommodated in the PB&F Options model), there are implications in terms of the workload that raising Options generates in both the originating organisations and for all others that have to review and input into the measures. It is therefore important for the originating Command/TLB to establish early communication with other potential stakeholders to allow early consideration of whether the proposed Option is the best way forward or whether, for example, a ROM cost would be sufficient in the first instance. For this to work, the other stakeholders must continue to move away from the idea that they will not consider a proposed measure until a formal Option has been created.

2.69. Similarly, Commands/TLBs who identify a desired outcome should refrain from issuing every potential course of action to achieve it as an Option; instead they should discuss these with stakeholders in order to determine which are the most viable and should therefore be taken forward. Finally, Commands/TLBs should refrain from building up large numbers of measures and then issuing these as Options with the same costing date. This has the potential to be unmanageable for the other organisations which have to cost the measures.

2.70. When considering changes to the Equipment Programme and whether it is appropriate to raise an Option, Commands/TLBs should bear in mind that there are other tools available to them, specifically the DE&S/ISS Change Control processes of Initial Look Requests (ILRs) and Formal Change Requests (FCRs). In summary, these operate as follows:

<u>Initial Look Request (ILR)</u>

This formalises early engagement between Commands and the Delivery Agent(s) to elicit a very high level and <u>unassured</u> assessment from the Delivery Agent(s) around viability and deliverability of a Change Proposal. As routine, a two week turnaround time for staffing an ILR has been agreed. Should Commands exceptionally wish to accelerate this timescale they should contact DE&S/ISS.

<u>Formal Change Request (FCR)</u>

This replaces the former EPAF process and enables Commands to gain an assessment around the deliverability and cost of a Change Proposal that will have been subject to formal assurance from the Delivery Agent(s). Implementation of an FCR is dependent on it being within the Command's delegation (i.e. it does not meet any of the criteria that would require a formal Option to be raised). A four week turnaround time has been agreed although this could be reduced by agreement with DE&S/ISS.

2.71. Further details on the operation of ILRs and FCRs is available in the Change Control section Acquisition Systems Guidance (ASG)[9].

2.72. Where Commands/TLBs consider it is appropriate to raise an Option, this should be done using the ABC 17 Options template (Appendix E-1), the final version of which has been developed in collaboration with all key

[9] http://aof.uwh.diif.r.mil.uk/aofcontent/asg/content/change_control/1_change_intro.htm

stakeholders (Commands/TLBs, DE&S/ISS and the Corporate Centre), together with current guidance on best practise for Option writing (Annex E). All Options in ABC 17 are to be treated sensitively on a 'need to know' basis and industry should not be consulted on the formulation of Options unless specific authorisation is granted by Head of Defence Resources. It should be noted that raising an Option will not automatically blight the project or programme being reviewed or recosted.

2.73. For ABC 17, the Options template has been expanded to incorporate the information required to raise ILRs and FCRs. When a user first opens the template they will be prompted to indicate whether they wish to raise an Option or a Change Request and, when selecting the latter, whether they wish to raise and ILR or an FCR. These choices will determine the tabs in the template that are available for completion. Throughout this process it is possible for a user to change this prompt setting, for example to convert and ILR into a formal Option, and all common data fields in the new selection will automatically be populated with the existing data.

2.74. For Options, once the template has been completed, it should be forwarded to Defence Resources and in parallel to FMC-Cap-Plans and/or FMC-Cap-JtPlans and/or FMC-Cap-Infra, as appropriate. Defence Resources will allocate the measure a formal Option number, enter it on PB&F and ERIC and then release the Option, using a standard distribution list which will ensure that all stakeholders have visibility and are able to input to it.

Selection of Options for Costing in PB&F

2.75. Where an Option has formally been created on PB&F, users will need to update their view of live Options in the 'Option Creation & Selection' tool, using the 'Get Data' link and then running the appropriate systems link. Any new Options (and any amendments to existing Options) since the last update will be added to the existing list of Options and highlighted in red.

2.76. Users who wish to cost an Option will need to actively select the measure for costing, using the 'Option Creation & Selection 17' tool. As in previous planning cycles, the user will be able to select against which model (TLB Plan, ESP or EPP) the costings should be entered. By using the PB&F workflow functionality, users at higher levels in the budgetary hierarchy, including the Corporate Centre, will be able to review which areas have selected to cost an Option and what progress has been made.

2.77. It is important that users in Commands/TLBs carefully review all Options that have been issued to determine which require costing by their organisations. However, users should only select for costing those Options which they genuinely intend to cost. Selecting large numbers of measures on a 'just in case' basis will reduce the speed at which the Option costing model will run, to the frustration of all concerned; it will also delay implementation of an Option, as all lower level nodes need to have submitted their costings (and therefore locked them) before this can occur. If an Option is selected for costing in error, there are two ways to correct this situation in PB&F:

a. If the error is spotted quickly and an Option Costing Model has not automatically been created, the user can simply select 'No' from the dropdown menu in the 'Option Creation & Selection 17' tool.

b. If an Option Model has been created the user will need to select 'Delete' from the drop down menu in the 'Option Creation & Selection 17' tool. This will raise the error with the DBS team who will reset the selection process for that user for the stated Option. It should be noted that any costing input against that Option will be deleted and cannot therefore be recovered at a later date.

2.78. It will be for Commands to initiate local business processes to ensure that the appropriate elements of their budgetary organisations have selected and costed Options correctly on PB&F.

<u>Costing of Options</u>

2.79. Options raised on PB&F are to be fully costed, both in terms of financial and workforce implications, and TLB Plan, ESP and EPP modules are provided to ensure that these are captured across all plans, as appropriate. Each Option will be issued with a deadline for costing; it is extremely important that all data is entered into the relevant modules and submitted by the deadline, as any delay can have a knock-on effect on subsequent processes and ultimately the conclusion of ABC 17.

2.80. An integral part of running an effective Options process is ensuring that all stakeholders have sufficient time to consider, comment upon and cost Options and that DE&S/ISS Delivery Teams have sufficient time to conduct their assurance activities. Therefore, for ABC 17, the deadline for completing costing of Options and finalising the Options template should be assumed to be <u>five weeks</u> from the date of issue, unless otherwise agreed by all stakeholders.

<u>Other Costing Considerations</u>

2.81. When costing Options on PB&F, the following additional considerations should be taken into account:

a. **Non Cash Resource DEL.** The importance of costing Non-Cash Resource DEL was explain in Part I of these instructions; it follows that the same rigour should be applied to costing the Non-Cash Resource DEL elements of Options. It will be for affected Commands/TLBs to determine the internal processes required to deliver this.

b. **Workforce.** For coherence, and to avoid complications when approved Options are automatically implemented during the Option process, the workforce element of Options should be costed using the same capitation rates as costed plans. Commands/TLBs should also ensure that all workforce implications of costed Options (i.e. changes in Establishment and Strength for Service and Civilian personnel) are properly captured in the PB&F Option Costing model. When costing Options which include changes to workforce, the relevant military and civilian protocols should always be applied. For civilian personnel, the costings should exclude any redundancy costs, as this will be held centrally and ring-fenced.

c. **Data Entry in PB&F.** The baseline against which Options are to be costed will be specified in the Option template and will usually be the current costed plan in PB&F. Data should be entered against each Option at the same level of detail as in the main planning models and should be attributed to the correct Level 4 RA Codes and the correct organisational nodes from the outset. The use of dummy adjustment nodes and lead RACs should be avoided wherever possible. This is because the data entered onto the system will be used for other purposes within the ABC process (e.g. workforce analysis or the calculation of the adjustment to CTs in respect of Fuel) and because the automated process for implementing approved Options does not readily allow for subsequent adjustments. Validation will continue to be applied to the Option costing models to prevent costings of less than £1000 being entered. This does not apply to the workforce related cost tabs.

d. RA Code KAB666. In order to ensure accounting integrity in the Option costing models, a balancing entry is automatically created against RAC KAB666 if users do not complete the double entry themselves. Again, it is strongly recommended that users should take action to remove these automatic balancing adjustments before submitting the costed Option, by manually inputting the double entry against the appropriate RAC. If this is not done, any balances against this RAC will need to be removed before the completion of ABC 17.

e. Supplementary Data Tabs. It is also important that all tabs in the Options costing model are fully completed including, for example, the Forex tab.

Submission of Options in PB&F

2.82. Once a user is satisfied that an Option has been correctly costed and all data tabs have been properly completed, they must formally submit that Option. Once submitted at Command/TLB level, Options can only be unlocked by Defence Resources and care should therefore be taken to ensure that an Option has been correctly costed before it is submitted. In addition, once it has been agreed that an Option will be implemented, Defence Resources will centrally lock it to prevent further costing nodes being created by users. In the event that further costings or adjustments are required, Commands/TLBs will need to contact Defence Resources.

Implementation of Options in PB&F

2.83. It is for Commands/TLBs to decide which of their measures they wish to implement, subject to any requirement for Defence Board or Corporate Centre endorsement. Where an Option has an impact on other Commands/TLBs, the originating Command/TLB will need to confirm that it has consulted with all those affected and that they are content for the Option to be implemented. Defence Resources will circulate a consolidated list of Options which Commands/TLBs wish to implement to all Commands/TLBs immediately prior to implementation on PB&F to ensure that this consultation process (including agreeing any funding adjustments – see below) has taken place; this will include a domain level assessment by DE&S/ISS.

2.84. As part of these discussions, Commands/TLBs will need to agree between themselves how any funding implications (including changes in workforce requirements) will be addressed, with agreed adjustments to Control Totals made by Commands/TLBs through the inter-TLB transfers process. To give an example:

> TLB X raises a savings Option which saves it £10M a year. TLB Y costs the measure, showing a cost pressure to TLB Y of £2M a year – a net saving to Defence of £8M a year. TLB X will need to agree with TLB Y that the Option should be implemented and how the £2M a year of additional costs in TLB Y will be dealt with. They may agree that costs lie where they fall (i.e. TLB X scores the full £10M a year saving and TLB Y absorbs the cost pressure of £2M a year) or that there will be a transfer of Control Total cover (i.e. £2M a year of Control Total cover is transferred from TLB X to TLB Y through the inter-TLB transfer process, so that TLB X scores the net saving of £8M a year and there is no additional cost pressure for TLB Y to deal with).

2.85. Commands/TLBs may, of course, implement any Option which is purely internal to itself and does not require Centre approval although, in line with the general approach to Options in ABC 17, these should wherever possible be handled as internal reprogramming.

2.86. It is important to note that only the latest version of an Option can be selected for implementation (e.g. for Option 17AA800C, only the 'C' version can be selected; neither the preceding 'A' nor 'B' version can be implemented).

2.87. Implementation of Options on PB&F will be actioned by Defence Resources and will have the effect of applying the costing and workforce adjustments to costed plans at the same organisation and RAC level as the data was entered for the Option costings. Option implementation will not automatically adjust Command/TLB Control Totals in the PCM, since the vast majority of Command/TLB led Options will be funded from within existing Control Totals. Should implementing Options require an adjustment to Command/TLB Control Totals, Defence Resources will action this through the PCM and will, in parallel, update Command/TLB Control Total sheets.

2.88. The PB&F PCM functionality also allows Commands/TLBs to adjust Control Totals for their lower level budgetary organisations for the effects of implemented Options, if they wish to do so. The system will pre-populate an intra-TLB transfer which would change the CTs for lower level budgetary organisations in line with the financial impacts of the implemented Options, using the TLB Plan adjustment node as the balancing entry where the Option has an overall financial impact on the Command/TLB. Whether this pre-populated intra-TLB transfer is used is entirely at the discretion of the Command/TLB. It may choose to implement the transfer as is, delete the transfer without implementing it, or use it as a starting point from which to make selected changes to Control Totals in its lower level budgetary organisations. Situations in which it might not be appropriate to implement the transfer as is would include:

- The Option was costed using an adjustment node and the Control Total changes should now be made to the correct budgetary organisation;

- The Command/TLB does not wish to provide full CT cover to the lower level budgetary organisation for the impact of an Option;

- The Command/TLB wishes to balance the net financial impact of implemented Options against an organisation other than the TLB adjustment node.

<u>WORKFORCE</u>

2.89. The detailed instructions for planning workforce in ABC 17 are at Annex C. Notwithstanding the move to fully delegated budgets, funding for Reservists is ring-fenced and Commands/TLBs will continue to be required to report progress at key points in-year. Whilst the funding is not ring-fenced in the sense of a specific funding line within delegated Control Totals, the funding allocated to Reservists must only be spent only for that activity. This is an area which attracts significant interest, both internally from Ministers and senior management, and externally. It therefore follows that planning for Reservists should be conducted with the same rigour which is applied to planning regular workforce. There are no separate ABC 17 reporting requirements over and above those required by CDP, although any issues should be included in Command/TLB Reports, where Ds Resources wish to bring these to the attention of the Centre for planning purposes, including the handling of funding allocated in-year that may no longer be required.

FURTHER ANALYSIS OF THE OUTCOME OF ABC 17

2.90. An important part of the outcome of the ABC process is the analysis of the financial position. This provides important management information to a range of customers, including senior management within MOD and various external bodies such as HM Treasury and the Cabinet Office. The data is also used routinely to answer PQs, FOI requests etc. Much of this analysis is undertaken centrally, using the information in PB&F; it is therefore extremely important that the source data input by users is complete and accurate.

PART 3 - PB&F AND DATA ENTRY

Introduction

3.1. For ABC 17, the ABC models within PB&F will continue to provide the functionality for users to recost their plans at all levels and to submit those plans up through their budgetary hierarchies. PB&F will therefore provide a single version of the truth at every stage of the planning cycle for all financial aspects. In line with the approach taken in recent planning cycles, users will be able to update their planning models throughout ABC 17; the only exception being where models have to be locked for short periods for technical reasons such as rolling forward to the next version.

CHANGES TO PB&F SINCE ABC 16

3.2. The Department's PB&F solution is based on IBM Cognos software and an Oracle data warehouse, with the first live deployment of the solution in October 2005. By 2015 the infrastructure that the PB&F solution was hosted on was therefore over ten years old and the hardware was reaching the end of its product lifespan. In addition, both the COGNOS software and the Oracle database versions were out of date and no longer fully supported. This, combined with the ever increasing complexity of the PB&F models, created a position of acute fragility in the latter half of last year.

3.3. To remedy this problem, the PB&F solution was migrated onto the same new and fully up to date platform as Accounting Operations, which also runs the latest versions of the Cognos and Oracle software. In parallel, the existing solutions have been reviewed in an attempt to reduce complexity; this approach is also being applied to future development requirements. As a result, the scope for significant changes to the PB&F ABC models since ABC 16 has been limited to:

Frascati/Non-Frascati Research & Development Cost Reporting

3.4. Under changes arising from ESA 10, expenditure on Research & Development has been reclassified as Capital DEL; this change has been managed through the annual SDS update process. Additionally, the department needs to be able to differentiate between those elements of R&D expenditure which align with the OECD set definitions (the Frascati definitions) and those which do not, for the purposes of internal and external reporting, including to the Office of National Statistics. To facilitate meeting this requirement, a change to the existing RAC structure has been made through the annual RACE process. For ease of use, a new PB&F report has been provided for ABC 17 which shows all R&D RA Codes, split between those which are Frascati compliant and those which are not.

RAC Level 4 Inventory Reporting

3.5. In order to meet HM Treasury reporting requirements and to ensure that the department can identify data on inventory costs at the appropriate level of granularity, ABC Management Report 60 has been modified to allow users to run it at RAC Level 4.

Risk Impact Date

3.6. The Risk Impact Date element of RFC 10464A has been added as a new Field in the Risk tab of the TLB Plan, EPP and ESP models and can be reported on within the ABC and FMS Risk Reports.

3.7. A number of further developments are currently expected to be delivered in FY 16/17 Release 2 and further details while be provided by DBS as the changes go live. These are subject to further development work and are dependent on availability of Defence Business Services/IBM resources.

Organisational Structure

3.8. The PB&F organisational structure for ABC 17 has been updated to reflect the latest version of the Department's Standing Data Structure (SDS). Any further small structural changes (e.g. renaming of Basic Level Budgets) during ABC 17 can be implemented through monthly updates of the SDS and PB&F will be updated accordingly. However, any more significant structural changes will not be implemented until the start of ABC 18 or IYM 17/18.

3.9. It should be noted that the creation of the new DG Nuclear TLB will not be reflected in ABC 17, following the recent decision to run FY 16/17 as a shadow year while the new organisation stands up. The creation of the new TLB and its subordinate budget and reporting structures on PB&F will therefore take effect for ABC 18.

RACE Structure

3.10. The Resource Account Code structure has been updated to the FY 16/17 version.

Workforce Ranks, Rates and Grades

3.11. The ABC 17 Manpower models have been updated to reflect the latest ranks and Rates for Service personnel and Grades for Civilian personnel.

DATA ENTRY IN PB&F

Level of Data Entry

3.12. The standard level of data entry in PB&F for ABC 17 remains unchanged:

TLB Plans	RAC Level 4 Years 1-10	[redacted]
ESP	RAC Level 4 Years 1-10	DEL Years 11-30
EPP	RAC Level 4 Years 1-10	DEL Years 11-30

3.13. Users may <u>exceptionally</u>, enter costings using a lead Level 4 RAC Code where a more detailed breakdown is not readily available (e.g. enter all costings against Electricity rather than individually against Electricity, Gas and Water & Sewerage). This should, however, be kept to an absolute minimum, not least because of the potential for such an approach to distort any subsequent analysis of the costings by higher level reviewers.

3.14. PB&F has no constraints on the level of detail at which financial information can be entered, but there are a number of shortcuts which allow data to be entered at a higher level (in £Ks or £Ms). It will be for Commands/TLBs and DE&S/ISS Project Teams to determine the level at which data should be entered onto the system. This does not, of course apply to capitation rates (which are usually calculated to the nearest pound) nor to calculations performed automatically within PB&F, such as the application of Corporate Planning Assumptions for fuel prices to user entered volumes. For reporting purposes, the COGNOS functionality can be set to produce reports in pounds million (£M), to three decimal places.

<u>Workforce Validation</u>

3.15. The validation applied to capitation rates in Manpower models in ABC 17, which remains unchanged from ABC 16, is as follows:

PAY ELEMENT	VALIDATION RATE
Service Personnel	
Pensionable Pay	£450K
Non-Pensionable Pay	£450K
ERNIC	£70K
Civilian Personnel	
Pensionable Pay	£400K
Non-Pensionable Pay	£400K
ERNIC	£70K

3.16. Further validation will continue to apply to prevent users from entering negative Strength numbers or negative capitation rates. It should be noted that validation also applies to the workforce element of Option costing models, although in this case entering negative Strength numbers (but not capitation rates) will be allowed, to facilitate costing workforce savings measures, should these be required.

PB&F Versions Available in ABC 17

3.17. The following formal PB&F versions will be available for ABC 17:

- Rolled Forward
- Initial Phase
- TLB Report
- Intermediate A
- Intermediate B
- Intermediate C
- Final A
- Final B
- Final C
- Final D

ANNEX A - ABC 17 TIMETABLE

DATE	ACTIVITY
2016	
w/c 25 April	Defence Resources Issue Draft ABC 17 Instructions
3 May	All ABC 17 PB&F Models Available for Reconciliation and then Release to Users (as 'Initial Phase' Version)[1]
w/c 9 May	Defence Resources Issue Final ABC 17 Instructions and ABC 17 Initial Control Totals
3 May – 3 June	Issue of Options for Window 1 Implementation in ABC 17
From 14 June	QRPC 1-17 Reviews
30 June	• EPP and ESP Models Updated for Outcome of QRPC 1-17 • Roll Forward of ABC 17 PB&F Models to 'TLB Report' Version
By 8 July	All Options for Window 1 Implemenation in PB&F to be Costed and Locked
15 July	Window 1 Option Implementation on PB&F
26 July	Inter-TLB Transfer Implementation 1 on PB&F
29 July	Defence Resources Issue Updated Control Totals Incorporating Window 1 Option Implementation and Inter-TLB Transfer Implementation 1
From 7 September	QRPC 2-17 Reviews
23 September	• EPP and ESP Models Updated for Outcome of QRPC 2-17 • Roll Forward of ABC 17 PB&F Models to 'Intermediate A' Version
29 September	Inter-TLB Transfer Implementation 2 on PB&F
30 September	Defence Resources Issue Updated Control Totals Incorporating Inter-TLB Transfer Implementation 2
7 October	Roll Forward of ABC 17 PB&F Models to 'Intermediate B' Version
14 October	Submission of ABC 17 Command/TLB Reports to DG Finance (covering TLB Plan and EP)
27 November	Defence Board Consideration of ABC 17 Position and Capability Audit 2016
By 16 December	Issue of All Remaining Options for Implementation in ABC 17
2017	
From 17 January	QRPC 3-17 Reviews
3 February	• EPP and ESP Models Updated for Outcome

[1] Includes Planning Control Models (PCMs) and Options Models

	of QRPC 3-17 • Roll Forward of ABC 17 PB&F Models to 'Final A' Version
8 February	All Remaining Options for Implementation in ABC 17 to be Costed and Locked on PB&F
15 February	Remaining ABC 17 Options Implemented on PB&F
22 February	Inter-TLB Transfer Implementation 3 on PB&F
27 February	Defence Resources Issue Updated Control Totals Incorporating Implementation of Remaining Options, Inter-TLB Transfer Implementation 3 and Remaining Baseline Adjustments
15 March	• Command/TLB Final ABC 17 Submission on PB&F (costed plans must match Control Totals issued on 27 February
17 March	Defence Resources Issue Final ABC 17 Control Totals
From 17 March	• Migration of ABC 17 PB&F Models to IYM 17/18 and ABC 18 • FY 17/18 AP0 FOOs • Central Analysis of Outcome of ABC 17
By 31 March	Finalisation of Command Plans and Capital Infrastructure Programme
By 28 April	Finalisation of CASPs/ISPs

Version: 10/05/2016

ANNEX B – CORPORATE PLANNING ASSUMPTIONS

Introduction

B.1. The Corporate Planning Assumptions (CPAs) for ABC 17 are shown below. They are based on the Defence Economics (DE) 'Economic Forecast Assumptions 2016/17' which are available on the DE website[1]. In some cases the ABC 17 CPAs match the DE forecasts but there are instances where, because the projections are particularly volatile or unpredictable, the CPAs have been set at a different level for reasons of prudence and/or stability. These include Service and Civilian Pay and ERNIC, Propulsion Fuel prices and Foreign Exchange (Forex) rates. Where there are differences between the ABC 17 mandatory CPAs and the DE forecasts, it is essential that the CPAs are used to re-cost plans in ABC 17. Defence Resources will centrally manage the financial implications of any such differences throughout ABC 17 and will adjust Command/TLB Control Totals towards the end of the planning cycle, where appropriate.

B.2. The ABC 17 CPAs are divided into those which are mandated and those whose use is discretionary. Mandated CPAs are used to provide a consistent basis for costing specific elements of the Defence Programme and to allow Defence Resources to calculate centrally held provisions and to make any required adjustments to Command/TLB Control Totals. The CPAs for SCAPE rates, MHCA indices, Propulsion Fuel prices and Forex rates are loaded directly into the PB&F planning models and cannot be altered by users.

B.3. Discretionary CPAs are also provided but in almost all instances, Commands/TLBs and DE&S/ISS Delivery Teams will have better information (e.g. specific contracts for the delivery of equipment and associated support, knowledge of local inflation factors etc.) and these must be used in ABC 17 to ensure that programmes reflect the most likely costs. Simply applying the default inflation assumptions below in order to avoid unwelcome but expected cost pressures is not acceptable and risks making programmes ultimately unaffordable and introducing unmanageable in-year pressure in Command Plans. It follows that a review of inflation assumptions should be a key consideration in DE&S/ISS reviews of equipment programmes and support costs and TLB reviews of costed plans.

[1] http://defenceintranet.diif.r.mil.uk/Organisations/Orgs/HOCS/Organisations/Orgs/DFMC/Pages/EconomicForecastAssumptions.aspx

PART 1 – MANDATORY CORPORATE PLANNING ASSUMPTIONS

A. Service Pay

ABC 17	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25	FY 25/26	FY 26/27
Service Pay	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
ABC 16 CPA[2]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

B.4. The ABC 17 CPAs shown above, which are unchanged since the conclusion of ABC 16, are planning assumptions only and should not be taken to indicate a central forecast of future military pay awards. The rates for FYs 17/18 to 19/20 reflect the 1% cap on Public Sector pay announced in the 2015 Budget and implemented in Command/TLB costed plans and Control Totals at the conclusion of ABC 16. The announcement also provided for progression up incremental pay scales for Service personnel but DE has estimated that the financial effects of this will be counterbalanced by the cohort of joiners and leavers. Beyond FY 19/20 DE has forecast that military pay will need to increase above the general rate of inflation if the Department is to be able to recruit Service personnel in order to maintain the future force structure profiles required to deliver military capability. The financial effects of the difference between DE's forecast rates and the CPAs shown above will be managed centrally by Defence Resources. This approach allows the Department to manage any future fluctuations in DE's forecasts (including any changes in GDP deflator assumptions following at the time of the Chancellor's 2016 Autumn Statement) without the requirement for Commands/TLBs to fully re-cost their workforce plans. Where necessary, changes to Command/TLB costed plans and Control Totals will be made at the conclusion of ABC 17.

B.5. The rates shown above have not been adjusted to reflect the financial impact of the New Employment Model (NEM) which came into effect on 1st April 2016. The cost profiles of transitional costs and down stream reliefs calculated by the Head Office NEM team vary significantly across the three Services and therefore across individual Commands/TLBs, making it impossible for DE to factor these into a generic set of Service Pay economic forecast assumptions. However, it is important that ABC 17 costed plans fully reflect these changes and it will be for individual Commands/TLBs to determine how best to achieve this, taking into account the materiality of the changes (which were previously advised to them by the NEM team) and the need to maintain the integrity of their detailed manpower costings, including the underpinning capitation rates. Care should be taken when adjusting capitation rates as simply applying the ABC 17 CPAs to the emerging FY 16/17 capitation rates (which will be based on FY 16/17 NEM pay rates) will simply grow the in-year transitional cost pressure rather than reflecting the true cost profile including the downstream benefits. Commands/TLBs should therefore consult Def Strat-WDS-NEM for assistance in calculating revised ABC 17 capitation rates if they

[2] ABC 16 closing CPAs after adjustments for pay restraint

intend to adopt this approach. As agreed by Command/TLB Directors of Resources and endorsed by the January 2015 Defence Board, the transition costs of implementing the NEM pay model will be managed within existing Command/TLB Control Totals; later year benefits will then accrue to Commands/TLBs.

B. Service ERNIC

ABC 17	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25	FY 25/26	FY 26/27
Service ERNIC	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
ABC 16 CPA[3]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

B.7. Changes in Service Employer Related National Insurance Contributions (ERNIC) are driven by annual changes in National Insurance policy and by increases in basic pay. The last significant changes in ERNIC policy (i.e. the introduction of the Single Tier State Pension and the removal of the requirement for employers with employees under the age of 21 to pay Class 1 secondary National Insurance contributions on earnings up to the upper earning limit) were implemented in ABC 16 and Command/TLB costed plans and Control Totals adjusted accordingly. It therefore follows that Service ERNIC CPAs are identical to those issued for Service Pay.

C. Service SCAPE

ABC 17	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25	FY 25/26	FY 26/27
Officers	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Other Ranks	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

B.8. The Service SCAPE rates for ABC 17 are unchanged from those used and funded at the end of ABC 16 and continue to reflect the introduction of the new Armed Forces Pension Scheme in 2015 and the finalised actuarial revaluation of the scheme. The 2016 Budget announced a reduction in the Pension Discount Rate for Service and Civilian pensions (from 3.0% to 2.8%) from FY 2019/20. The Government Actuary's Department (GAD) is currently doing work to provide revised SCAPE rates and to assess the financial impact on government departments. These changes are therefore not reflected in the above CPAs, which will be updated at the end of ABC 17, and costed plans and Control Totals adjusted accordingly. Defence Resources will provide further guidance on this process later in the planning cycle.

[3] ABC 16 closing CPAs after adjustments for pay restraint

B.9. When applying these rates, the following should be noted:

- All rates are applicable to pensionable pay;
- Rates for Officers and Other Ranks apply to all Service personnel including Gurkhas, Full Time Reservists and Volunteer Reservists.

B.10. Whilst the automated application of the Service SCAPE CPAs in PB&F will, in most circumstances, give the correct result, it is inevitable, given the complex rank and rate structure and differing local circumstances within budgetary organisations, that there will be instances where this may not be the case. Where this affects all personnel in a single rank or rate, Commands/TLBs should report the problem to Defence Resources for corrective action on PB&F. Where the issue is entirely due to a local peculiarity in the application of SCAPE, the overriding consideration should be to ensure that the costings are accurate and a manual adjustment should be applied, using a 'spare' RAC code in the Service Personnel cost Commodity Block. Neither workforce numbers (i.e. Strength) nor capitation rates should be used to make the adjustment.

D. Civilian Pay

ABC 17	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25	FY 25/26	FY 26/27
Civilian Pay	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
ABC 16 CPA[4]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

B.11. These are planning assumptions only and should not be taken to indicate a central forecast of future Civilian pay awards. The considerations for Service Pay set out in para B.4. above apply equally to Civilian Pay, with the exception of the entitlement to progression up incremental pay scales which no longer applies to Civilians.

E. Civilian ERNIC

ABC 17	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25	FY 25/26	FY 26/27
Civilian ERNIC	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
ABC 16 CPA[5]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

B.12. In line with approach taken to Service ERNIC, Civilian ERNIC CPAs are identical to those provided for Civilian Pay.

[4] ABC 16 closing CPAs after adjustments for pay restraint

[5] ABC 16 closing CPAs after adjustments for pay restraint

F. Civilian SCAPE

Salary Band	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25	FY 25/26	FY 26/27
£22,500 and under	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
£22,501 to £45,000	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
£45,001 to £76,000	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
£76,001 and over	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

B.13. The Civilian SCAPE rates are unchanged from those used and funded at the end of ABC 16, although the Salary Bandings have been updated to reflect the latest Cabinet Office direction. These revised Salary Bandings will be automtically uploaded into PB&F for the start of ABC 17 and will result in minor changes to costed plans; there is no intention to make a corresponding adjustment to Command/TLB Control Totals.

B.14. The reduction in the Pension Discount Rate explained in para B.8. applies equally to Civilian pensions and will be managed in the same way as Service SCAPE.

B.15. The rates shown above are applicable to <u>pensionable</u> pay. The considerations for Service SCAPE on the results generated by the automated application of the CPAs in PB&F (set out in paragraph B.10) above apply equally to Civilian SCAPE.

G. Local Overseas Allowance (LOA)

B.16. In line with the approach used in previous planning cycles, the following rates are mandated for costing the Euro element of LOA:

LOA (Euro)	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25	FY 25/26	FY 26/27
Euro	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20

B.17. These rates are unchanged from those mandated for use in ABC 16. An equivalent rate for the US$ element of LOA is not required, as the costs involved are not material.

H. Modified Historic Cost Accounting (MHCA) Revaluation Indices

Fixed Assets	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25	FY 25/26	FY 26/27
Land & Buildings - Dwellings	1.8%	2.0%	2.1%	2.2%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%
Land – Other	1.8%	1.9%	2.1%	2.2%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%
Land & Buildings – Non-Dwellings	1.8%	2.0%	2.1%	2.2%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%
SUME	2.0%	2.0%	2.0%	2.0%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%
Plant & Machinery	1.9%	2.0%	2.1%	2.1%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%
Transport – Other	1.0%	1.0%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
Transport – Fighting Equipment	1.9%	1.9%	1.9%	1.9%	1.9%	2.0%	2.0%	2.0%	2.0%	2.0%
IT & Communications	(4.6)%	(4.4)%	(4.3)%	(4.5)%	(4.8)%	(5.1)%	(5.1)%	(5.1)%	(5.1)%	(5.1)%
Intangible Fixed Assets	1.8%	1.9%	2.1%	2.2%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%

Stocks	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25	FY 25/26	FY 26/27
Armaments	1.8%	1.8%	1.9%	2.1%	2.3%	2.5%	2.5%	2.5%	2.5%	2.5%
Clothing & Textiles	1.4%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Engineering & Technical	0.7%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
General	1.8%	1.9%	2.1%	2.2%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%
Guided Weapons, Missiles & Bombs	1.8%	1.8%	1.9%	2.1%	2.3%	2.5%	2.5%	2.5%	2.5%	2.5%
Medical, Dental & Veterinary	0.9%	1.5%	1.6%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Strategic Weapon Systems	2.4%	2.7%	2.7%	2.7%	2.8%	2.9%	2.9%	2.9%	2.9%	2.9%

B.18. The application of these rates will change asset valuations and, importantly, will have implications for the Non-Cash RDEL element of costed plans. Where appropriate, they will be automatically uploaded into PB&F planning models for ABC 17.

I. Foreign Exchange Rates

ABC 17	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25	FY 25/26	FY 26/27
$US	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Euro	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
$ Canada	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

B.19. The rates for the $US and the Euro remain unchanged from those mandated for ABC 16; the $ Canada rate has been updated to reflect the latest DE forecasts. These rates will be uploaded into the Foreign Currency tab in the ABC 16 PB&F planning models and will be automatically applied to user entered volume requirements. There will be no changes to these rates during the course of ABC 17; this will ensure stability of pricing assumptions and leave Commands/TLBs to focus on managing the financial impact of any changes in volume requirements, <u>for which there will be no central relief</u>.

B.20. Defence Resources will receive monthly updates of forecast exchange rates from DE and will use these to manage the Department's exposure to FOREX movements. Where appropriate, Defence Resources will adjust Command/TLB Control Totals towards the end of ABC 17 to reflect the financial implications of the variance between the latest DE forecasts and the CPAs for US Dollars and Euros (but <u>not</u> for Canadian Dollars); the rates uploaded into the Foreign Currency tab in PB&F will be updated in parallel. The forecast benefits of the Department's foreign currency forward buy programme will be assumed centrally in balancing the Defence Programme to budget.

B.21. The volume of currency to which the Department commits itself under the forward buy programme and the central management of the Department's exposure to FOREX movements are, to a significant extent, based on the volumes reported by Commands/TLBs in PB&F. It is therefore essential that this information is regularly updated throughout the planning cycle to ensure that it accurately reflects the latest underlying costed plan.

B.22. Whilst these rates are mandatory for all aspects of ABC 17, there may be circumstances where this is inconsistent with prevailing local circumstances, such as where different exchange rates are set out in the terms of a contract. Where this is the case, the CPAs should still be used but, if the financial affect would be material, further advice should be sought from Defence Resources. Further, it should be noted that, due to the volatility of foreign exchange rates, these CPAs are only to be used for ABC 17 planning purposes. DE staff must be consulted if current exchange rates are required for contract negotiations, for producing business cases or for other non-ABC 17 related costings. When considering business cases, adverse movements between the latest rates advised by DE and the CPAs used to cost ABC 17 can be an important factor when considering alternative options. Since Defence

Resources manages the financial effect of foreign exchange movements centrally, an adverse variance will not render a project unaffordable; however, there will come a point that, from a Value for Money perspective, when a UK supplier would be a better alternative.

J. Propulsion Fuels

ABC 17 (£s per cubic metre)	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25	FY 25/26	FY 26/27
Aviation Fuel	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Marine Fuel	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Road Diesel	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

B.23. The ABC 17 CPAs above are unchanged from those used in ABC 16 and will be uploaded into the ABC 17 Planning models. These CPAs will remain unchanged until towards the end of the planning cycle when the FY 17/18 prices will be updated to reflect DE's latest forecast; Command/TLB Control Totals will then be adjusted accordingly, based on the volumes reported by them on PB&F, and the prices uploaded into PB&F will be updated in parallel. This approach will allow Commands/TLBs to focus on managing their volumes requirements during ABC 17, with Defence Resources accounting centrally for the financial impact of differences between the CPAs and DE's latest forecast prices.

B.24. The fuel hedging regime will continue to operate and provide increased certainty with respect to the Department's planned expenditure on propulsion fuel. To inform this, Commands/TLBs must regularly review and update their planned fuel volumes on PB&F throughout ABC 17 in order to ensure that it is a realistic reflection of planned usage. This will provide the Department with more robust management information to operate and benefit from the fuel hedge mechanism.

PART 2 – DISCRETIONARY CORPORATE PLANNING ASSUMPTIONS

K. Utilities

ABC 17	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25	FY 25/26	FY 26/27
Electricity	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Gas	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Water	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Heating Oil	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

B.25. These inflation assumptions are based on the latest advice from DE and represent year on year forecasts of the most likely movements in Utilities prices, so that the rates for FY 17/18 should be applied to the latest costing forecasts for FY 16/17, the rates for FY 18/19 to the revised forecast for FY 17/18, and so on. It is recognised that these rates are likely to vary from those which are most likely to apply across specific MOD sites. In line with the approach directed above, the most realistic assessment of likely costs must always be used to cost plans. In line with the approach in previous planning cycles, Commands/TLBs are responsible for managing all changes in the forecast costs of Utilities within their existing Control Totals.

L. Other Costs

ABC 17	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25	FY 25/26	FY 26/27
General Administrative Expenditure	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Defence Works – PROPMAN	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

B.26. In line with the approach to applying discretionary CPAs set out above, these CPAs are only to be used in exceptional circumstances where better information is not available.

ANNEX C – WORKFORCE INSTRUCTIONS

SCOPE

Manpower Delegation Full Operating Capability (FOC) was declared on 1 Apr 2016. Updated strategic workforce planning guidance, is now contained within the Defence Plan, with Commands/TLBs required to set out their 10 year workforce plans in their Command Plans. As a result these ABC instructions now only provide technical direction and guidance to Commands/TLBs for the programming of their workforce plans.

Workforce Financial Management

C1. **Workforce Funding**. Under Manpower Delegation FOC, Commands/TLBs are not allocated specific Workforce funding but are required to budget for their expected workforce costs from within the global Cash RDEL Control Total issued by Defence Resources. With the exception of the caveats set out in Annex G to Defence Plan 16, Commands/TLBs have sufficient funding in their global CTs to be fully manned and are expected to manage routine variations in workforce costs themselves.

C2. **Workforce Budgeting**. Commands/TLBs are to budget for their workforce on the basis that by Year 4 their manning systems will have aligned strength with liability. Headcount figures entered on the 'strength tab' of PB&F should be based on predicted strength for Years 1 – 3 and the endorsed DP16 headcount allocations for Years 4 – 10.

C3. **Workforce Adjustments**. Workforce adjustments are to be funded on the same basis, i.e. changes to strength for Years 1 – 3 and changes to liability for Years 4 – 10.

[redacted]

Military Workforce

C5. **Capitation Rates**:

a. **Regular Service Personnel**. Commands/TLBs are to calculate Regular Capitation Rates[1] on the basis of the latest emerging in-year actuals, inflated by Head Office mandated Corporate Planning Assumptions (CPAs), and input them on PB&F. Care needs to be taken with regard to the implementation of the New Employment Model (NEM); further guidance is at paragraph B.5.

b. **Reserve Service Personnel.** Pay elements for Volunteer Reservists (including SCAPE costs) should be entered into PB&F in the Cash RDEL tab, not the Manpower RAC tab.

C6. **Entering Headcount on PB&F.** Commands/TLBs are required to submit Full Time Equivalent numbers using the Headcount tabs in PB&F, against a '*Ranks/Rates*' field which offers a standard list of military ranks/rates and category types. This information must be entered for all ten years of the ABC planning horizon:

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[1] Cost of Service personnel for a given rank = rank strength x rank capitation rate.

a. **Strength Tab**. Commands/TLBs should complete the PB&F 'strength tab' with forecast strength for Years 1 – 3 and DP 16 endorsed headcount allocations for Years 4 – 10.

b. **Establishment Tab**. Commands/TLBs are free to enter liability in the Establishment tab in PB&F for internal management purposes. However, due to inaccuracies, PB&F liability data is not recognised by the Centre as being authoritative. Endorsed military liability allocations, by Command/TLB are set out in the Defence Plan.

c. **Workforce Types**. TLBs should programme Service Workforce in accordance with the following guidance (Army Workforce types have been used as examples):

- **Army UKTAP Workforce data.** This will be entered against '*Army-*' ranks and rates. The designations '*UK Trained Adult Personnel – Officers*' and '*UK Trained Adult Personnel – Other Ranks*' should not be used.

- **GURTAM data**. This will be entered against '*Ghurkhas - Officers*' or '*Ghurkhas – Other Ranks*'.

- **Royal Gibraltar Regiment data.** This will be entered against the relevant rank using the relevant field with prefix, '*LEP-*'.

- **MPGS Workforce data.** This will be entered against '*Military Provost Guard Service*'. TLBs must not use Regular Service designations to enter MPGS data.

- **Service Workforce Untrained Strength data**. This will be entered using the *UTS* fields.

- **Full Time Reserve Service (FTRS) Data**. This will be entered against the *FTRS* Workforce tab.

C7. **PB&F Data Validations**. Users are prevented from entering negative Strength or Establishment figures in the main Workforce models. In addition, the following validations apply to the maximum value of individual capitation rates that can be entered into PB&F:

	Pay - Pensionable	**Pay Non-Pensionable**	**ERNIC**
Service Workforce	£450K	£450K	£70K

Service Manpower Adjustments

C8. **Manual Adjustments**. If Command/TLBs wish to make manual adjustments to Service pay elements[2] but are not yet able to make changes to Workforce numbers or individual capitation rates, changes should be made against the RAC created specifically for this purpose (**RAC LAZ666**[3] – PB&F Man Plan Round Use Only). This must

[2] This does not apply to Service Personnel Pay and allowances - see the Service Pay Board Pay and Allowances delegation paper (issued separately).
[3] Used for all manpower types.

subsequently be removed by making the appropriate adjustment prior to submission to Head Office. No other costs should be entered against this RAC during the ABC process.

C9. **Planned Adjustments.** There are two types of workforce adjustment that can take place within an ABC.

a. **External Transfer**. Mutually agreed transfers between TLBs that are service headcount and funding neutral should be made using the external transfer mechanism in the PB&F Planning Control Model (PCM). FMC will track these transfers to ensure that their impact is reflected in subsequent Defence Plan liability allocations.

b. **Options**. Bids for workforce changes that are not headcount and liability neutral can only be made using the ABC Options process. This will allow Head Office to monitor overall Service growth, prioritise demand and arbitrate when required.

Civilian Workforce

C10. **Civilian Personnel.** Strength should be the number of FTE[4] expected to be employed in the Financial Year. Capitation rates are based on the average annualised figures from the Command's/TLB's latest in-year actual costs, adjusted for centrally mandated Corporate Planning Assumptions. Using the Headcount tabs in PB&F, TLBs are to submit FTE numbers using the '*Grades*' field which offers a standard list of Civilian grades.

C11. Additional data entry instructions that continue to apply are:

- Civilian Personnel supporting US Forces. Civilian personnel supporting US forces, for which the MOD receive the full compensating receipt, should be identified by using the appropriate RACs in PB&F (LJA010, LJA012, LJB010, LJB012, LPA003, LPB003, LMA002, LMB002).

- **Data Validations.** The following validations apply to the maximum value of individual capitation rates that can be entered into PB&F:

Pay - Pensionable	Pay Non-Pensionable	ERNIC
£400K	£400K	£70K

C12. **Civilian Workforce Adjustments.** If Commands/TLB's wish to make manual adjustments to Civilian pay elements[5] but are not yet able to make the changes to Workforce numbers or individual capitation rates, changes should be made against the RAC created specifically for this purpose (**RAC LAZ666**[6] – PB&F Man Plan Round Use Only). This must subsequently be removed by making the appropriate adjustment prior to submission to Head Office. No other costs should be entered against this RAC during the ABC process. Changes to Civilian workforce numbers should be actioned through

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[4] FTE is determined by pay equivalence, such that FTE x capitation rate equates to manpower cost.

external transfers or Options in line with the approach used for Service personnel (see paragraph C.9. above).

C13. The closing position for Civilian Workforce as shown below is taken from PB&F and reflects the ABC 16 closing position (PB&F ABC 16 Final C Version). This should be used as the starting position for ABC 17.

[redacted]								
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Appendixes:

1 Contact details
2 Options timeline and process flow chart

Appendix C1

TLB Workforce Points of Contact

Regular Service Workforce Points of Contact				
TLB	**Area**	**Role**	**Current Incumbent**	**Contact Number**
FMC	Cap Plans	Army Workforce	[redacted]	[redacted]
	Cap Plans	Navy Workforce	[redacted]	[redacted]
	Cap Plans	Air Workforce	[redacted]	[redacted]
Navy TLB	Manpower	Establishments	[redacted]	[redacted]
	Resources and Plans	Manpower Plans	[redacted]	[redacted]
	Finance	Mil Finance	[redacted]	[redacted]
Army TLB	Manpower	Organisation	[redacted]	[redacted]
	Resources and Plans	RP	[redacted]	[redacted]
Air TLB	Manpower	Mil Manpower	[redacted]	[redacted]
	Resources and Plans	RP	[redacted]	[redacted]
JFC TLB	Manpower	Establishments	[redacted]	[redacted]
	Finance	JFC Fin	[redacted]	[redacted]
DE&S TLB	Manpower	Establishments	[redacted]	[redacted]
	Resources and Plans	CO DE&S	[redacted]	[redacted]
HOCS TLB	Manpower	Establishments	[redacted]	[redacted]
	Resources and Plans	Policy and Plans	[redacted]	[redacted]
DIO TLB	Manpower	Establishments	[redacted]	[redacted]

Appendix C2

Manpower Options flow chart